# Marine Cargo Insurance
## Indian Market Experience

Sanjiv Singh
Chief Manager
New India Assurance

# Marine Insurance Market in India : an overview

The marine cargo premium is around US$ 250 million as of date

The RI capacity for cargo insurance is approximately US$ 100 million per bottom

This capacity is derived from : National Re (GIC) which provides US$ 60 million capacity.

PSU Insurer (New India, United India, Oriental and National) : Totaling US$32 million.

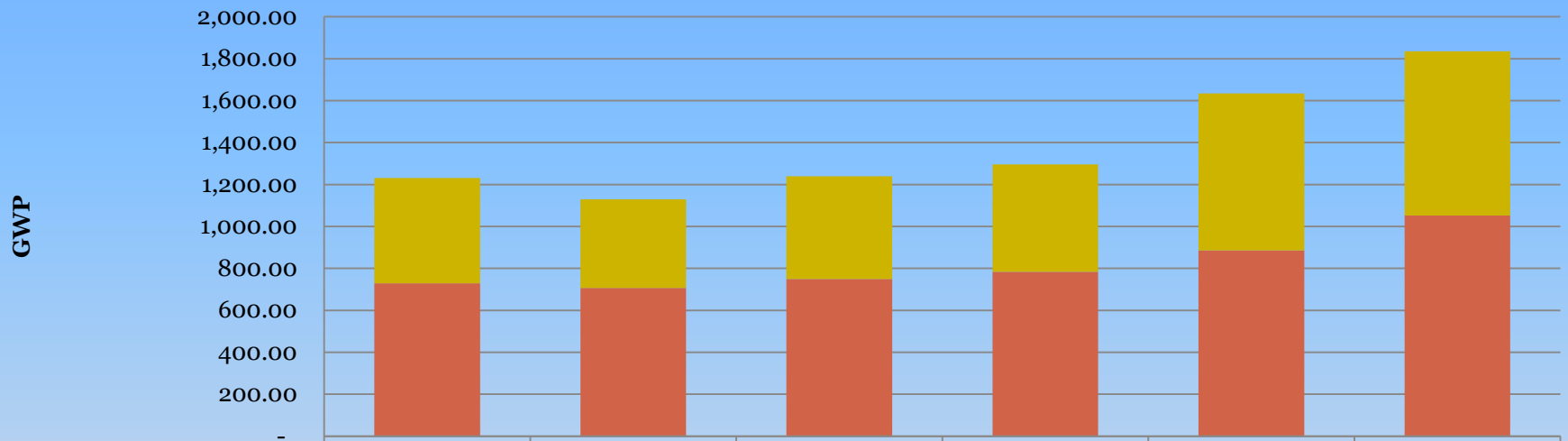
And other private insurers in India: totaling US$ 10 million

***The Indian market has a large RI capacity . Only very large Oil and Gas shipments, Projects Cargoes with high DSU limits , Marine Liabilities and Rejection requires require FAC support outside Indian market capacity***

***Stock throughput and Annual Sales Turnover policies are very popular***

# Size of the Marine Market

## Marine GWP- 2002-03 to 2007-08




| | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
|---|---|---|---|---|---|---|
| Marine Hull (Rs. In Crs) | 501.71 | 421.80 | 490.95 | 512.54 | 748.33 | 784.10 |
| Marine Cargo (Rs. In Crs) | 729.05 | 707.14 | 748.77 | 783.18 | 885.50 | 1,051.61 |

***Presently cargo premium is estimated to be around US$ 250 million-after years of stagnation, it is now growing***

# Marine Insurance Market in India:

India does not have Restrictive Legislation –CIF imports and FOB (or similar) exports too are permitted.

However purely domestic transits within India have to be insured within India.

Fronting is prohibited when local capacity is available. However in the case of Marine/Freight Liability insurance (MTO, NVOCC, Port /Terminal Operator's Liability etc), the Exchange Control Authority have given special permission to operators in India to insure in overseas countries-TIMS and TT Clubs, for example, dominate this space.

E Marine: quite common now and some very good systems are now available in India.

Marine cargo is sold direct, through Agency network and via Brokers.

***Robust legal framework-MIA 1962 replicating MIA of UK , Carriers Act, FEMA rules, COGSA (Hague Rules)***

***Insurance Act 1938 provides for "cash before cover" (Section 64VB-A savior for Indian insurers!!)***

# Impact of removal of Cargo Tariff

Marine cargo insurance was governed by tariff till the year 1994. Cargo was the first class of business to be freed from tariffs.

- Since only cargo tariff was removed and not tariffs for Property and Engineering classes, marine cargo became an entry strategy for the more lucrative tariff classes of business!
- Marine Cargo became a loss leader
- This led to the (in)famous Cross Subsidisation of property by health and cargo (both non-tariff)
- Specialisation in marine insurance took a backseat
- A majority of marine cargo business being in the lower sum insureds bands, this meant not enough injunction of premium into Surplus Treaties and marine affecting the net retentions of insurers.
- Led to "account or portfolio" underwriting rather than each class standing on its own!

***Despite all this, overall loss ratio of Marine Cargo was, barring a few private companies, hovering around 70 to 80% NIC/NEP.***

***Indian tariff rates were probably 30% more than International rates-leading therefore drastic reduction in cargo rates to secure business.***

***Global Reinsurers found their Marine Surplus Treaty providing high capacity but without much premium being injected.***

# Recent Trends

In the year 2007-8 all lines of business have been freed of tariffs. Logically this should have led to the growth of marine cargo business as a profit centre but subsequent events have proven otherwise! Portfolio approach still continues. However some positive trends have emerged:

- Rate for SME classes of business has hardened. Companies with a good agency channel are able to garner SME business and balance their portfolio
- Deductibles now find an acceptance
- Rates are going up for corporates whose overall results are adverse

*Global Reinsurers find that sufficient premium is not being injected into Surplus Treaties-they want a quota share element to be introduced.Going forward insurers may do away with Surplus Treaties and go in for XOL covers only for cargo.*

# Prospect for Marine Cargo

*The Government is planning a spend of US$ 500 billion during the current 5-year plan on infrastructure like road, rail, ports, power etc.*

*Container traffic is increasing by 15% annually*

*Major imports such as Crude Oil, Electronic Items are rapidly increasing-currently imports of these items total US$ 76 billion*

*India represents the 3rd largest country in terms of road network*

With increase in marine rate and deductible, cargo insurance has a good prospect in India.

India has a robust distribution channels such as direct, bancassurance, broking and agency.

***Recently a Project Cargo was reinsured into overseas market with a DSU sum insured of US$ 350 million***

***India has more than 240 brokers including MNC brokers (Willis, Aon, Marsh and Howden) who have a pan-India licence***

# Mumbai Pune Highway



# Jawaharlal Nehru Trust Port in Navi Mumbai, India



# Challenges

- The marine market can grow profitably only when it is developed as an independent class of business and not part of 'Account Underwriting'
- Reinsurers may not provide Surplus Treaty and may replace it with XOL Reinsurance-for this underwriting standards have to improve dramatically
- Disciplining the *market-lead should be taken by PSU Insurers*
- A National Marine Association of Underwriters-*need of the hour?*
- Underwriting expertise esp in DSU, Marine Liabilities-*need to develop specialists*
- Need for large players such as New India to develop in-house Marine Loss Prevention surveyors.
- Portfolio Management, portfolio control mechanisms and Robust MIS systems-*needs improvement*
- *OEM dictating stiff terms for repairs-Higher cost of repairs by original manufactuer to maintain their warranty has always been a thorny issue!*

***Overseas Reinsurers have an opportunity to offer specialist/niche covers in DSU, Port/Terminal Liability, Marine/Freight Liability Covers, Rejection Risks etc.***

# PREFACE

- Ladies and Gentlemen, I am very glad to be here and deliver my speech, and I hope we can get closer and closer through this Seminar.
- 2009 is the 60th anniversary of China-DPRK diplomatic relations, but also "China-DPRK friendship year", the annual events involving more than 30 Chinese relevant units, covering political, economic and cultural fields, reflecting China Communist Party and Korea Labor Party, and the two governments attach importance to China-DPRK bilateral relations, and also reflecting two countries continue to promote the friendship in the future. In this beautiful spring, as a member of China insurance industry, with long good cooperation with our Korean partners, I am very glad to come to amazing Pyongyang again, and I would like to take this opportunity to express my sincere thanks to Korea National Insurance Corporation's earnest invitation and gracious hospitality. Please allow me to extend all my best wishes for the friendship of China and Korea. I wish all people perfect health and lasting prosperity. I wish this Seminar a complete success!  My following speech topic is:

# Marine cargo claims in China

Henry Zhang
FAIRICC SURVEY AND LOSS ADJUSTING CO LTD
Email: fairicc@fairicc.com.cn
Website: www.fairicc.com.cn
Address: 716 HUATONG MANSION, 19A CHEGONGZHUANGXI ROAD,
BEIJING 100048, CHINA

# Marine cargo claims in China

- 1. History and nowadays
- 2. Market Status
- 3. Relevant Insurance types to marine cargo case
- 4. Marine cargo claims and accident handling
- 5. Current procedures for marine cargo claims in China
- 6. Import and Export Marine Cargo Claims Handling in China
- 7. Our practice as surveyor of marine cargo insurance -2 cases
- 8. Marine cargo claims encourage international cooperation to meet the challenges of globalization

# 1. History and nowadays

In 1805, the British set up an insurance firm in Guangzhou,China, operating sea transport insurance. 1865, first Chinese insurance firm named “YIHE” was established in Shanghai. On October 20th 1949 in Beijing, new China set up her first state-owned insurance company-PICC “People's Insurance Company of China”. In January 1952, foreign insurance companies completely retreated out from China mainland insurance market. After that, PICC had been the sole monopoly in China market. Meanwhile, the Ming An Insurance and Tai Ping Insurance operates as PICC overseas subsidiaries.

In 1979, China government decided to restore the domestic insurance business. In June 1992, the second national insurance, the Ping An Insurance began its national-wide insurance business. In October of the same year, the American International Group was allowed to operate in Shanghai, being the first foreign insurer after the Reform and Opening up Policy. October 1st 1993, China's "maritime law" came into force. On October 1st 1995, the "PRC Insurance Law" came into force. Also in the same year, in October, the Chinese People's Insurance Co Ltd began Institutions Reform, was changed into the Chinese People's Insurance ( Group), consists of PICC Property Insurance Co Ltd Limited, PICC Life and PICC Reinsurance Co Ltd of three subsidiaries.

In 1998, China Insurance Regulatory Commission was established in Beijing. In 2001, professional insurance assessment companies were first registered in China. 30 years of reform and opening up, China has been rapidly growing her insurance business and services. The market has improved steadily and been more and more competitive. Meanwhile, the laws and regulations had improved continuously; the prevention of risk has been significantly increased. In the promotion of reform, property insurance protection of economic, social stability for the benefit of the people has played an active role.

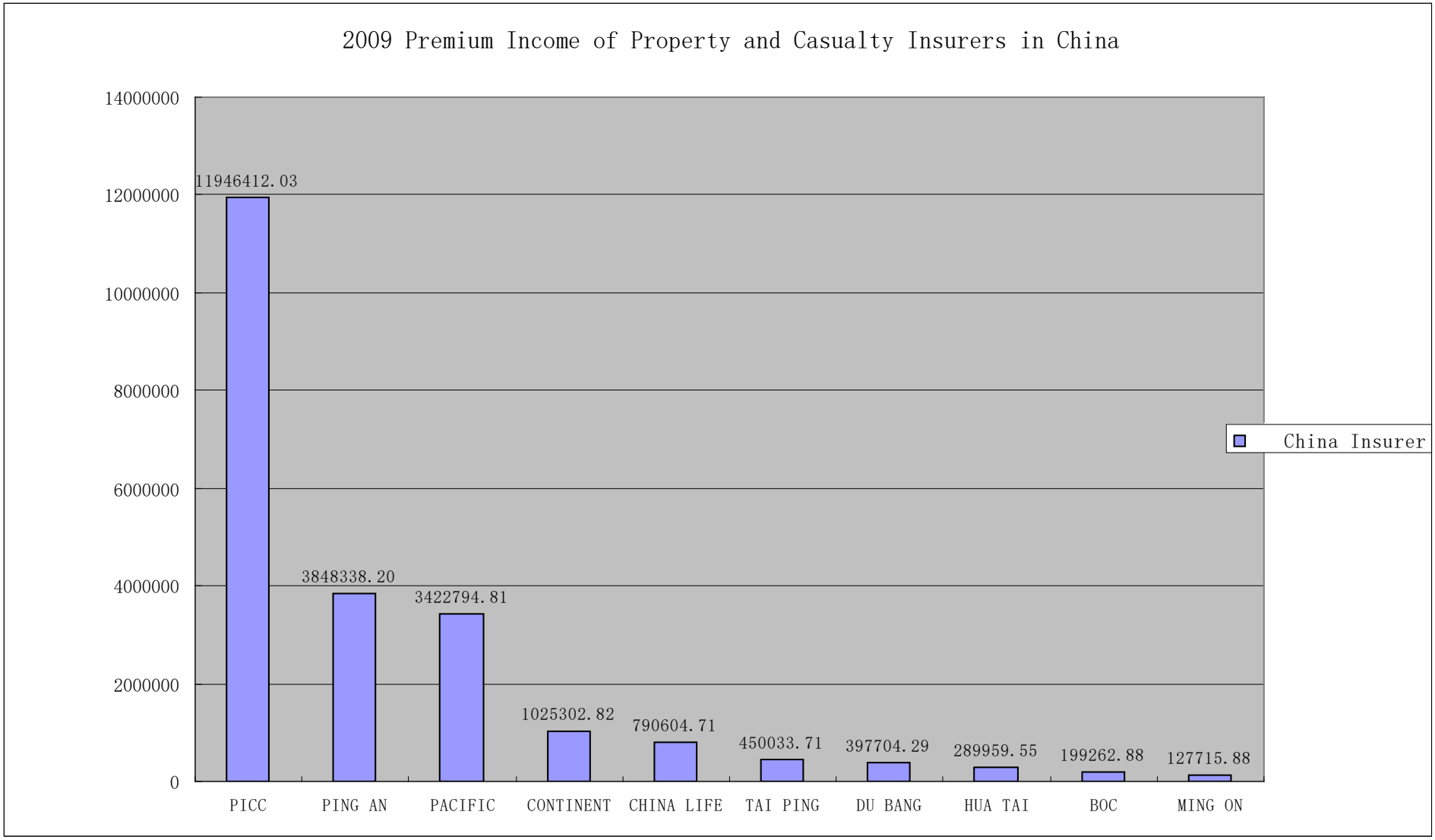
In 2008, the insurance industry actively involved in the South Snow Disaster and Wenchuan Earthquake Disaster, two catastrophic natural disasters, and also responded to historical challenges of world wide financial crisis. In 2009, the insurance industry coped with challenges and overcame all kinds of difficulties. Annual premium income was going up to 1113.73 billion Yuan, up 13.8%. Property and casualty insurance business continued to maintain rapid growth, the premium income amounted to 287.58 billion Yuan (equals to Euro 32billion), up 23.1%, with net profits about 3.5 billion Yuan.

China's insurance market has a bright future and potential. In early 2010, China's economic is remaining strong and rapid growth. China's insurance industry has laid a solid foundation. Property insurance market in 2010 will likely continue to maintain rapid growth.

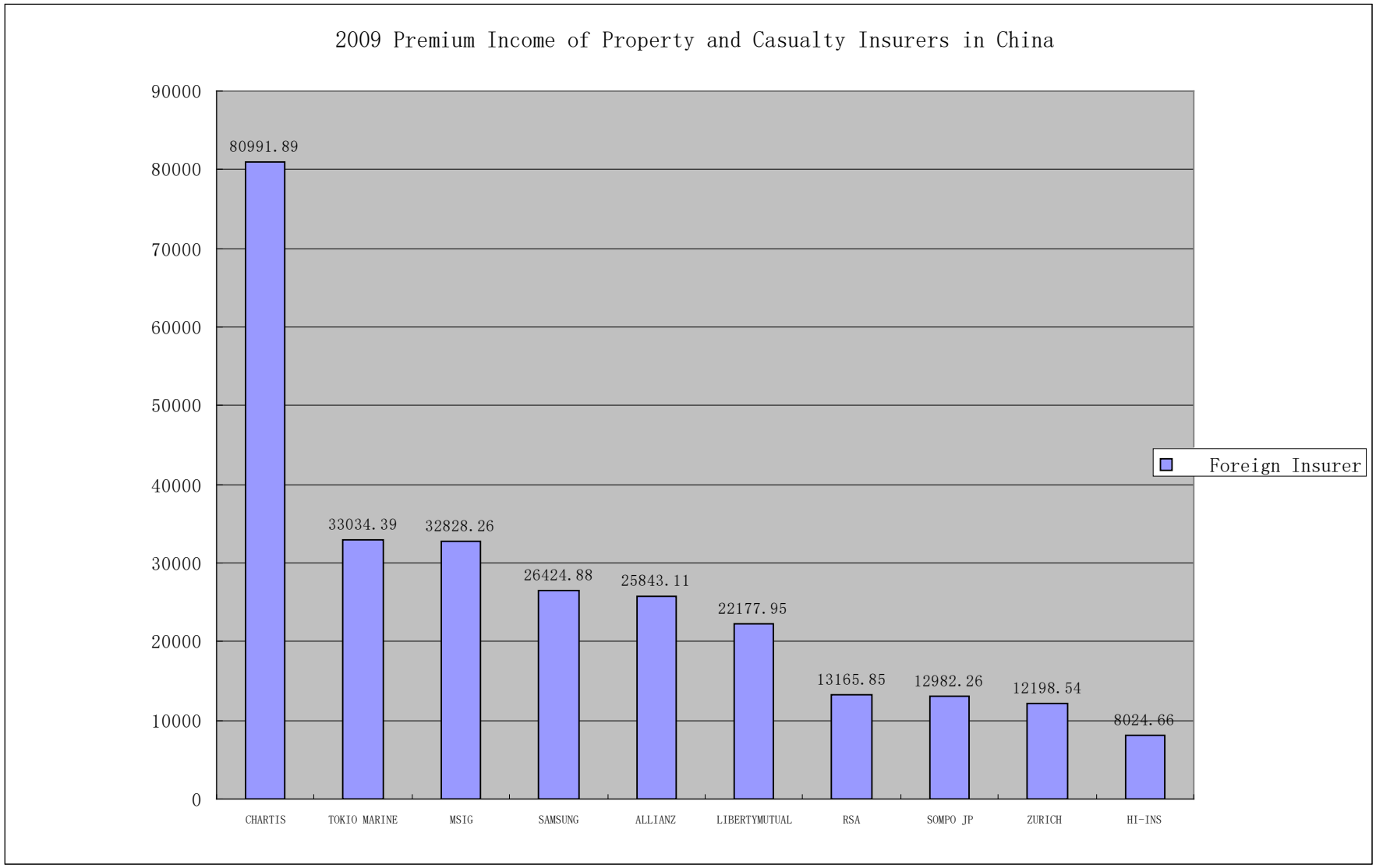
# 2. Market Status

# China Insurers

UNIT: 10K RMB Yuan



# Foreign Insurers in China




- Remarks: Data from China Insurance Regulatory Commission

Most of world leading property and casualty insurers have branches and offices in China now, most of them go in for marine cargo business. Since marine cargo insurance takes an important part of property insurance. Ocean shipping is the most important way in international transportation, which accounts for about 90% of China's import and export trade. As China's economy booming, China has become one of the most important powers of ocean transportation. Into the 21st century, China's marine cargo insurance industry developed rapidly, and showing a great potential.

At present, marine insurance industry continued to maintain a rapid growth. With more than 14 huge ports, China's coastal mine, coal, oil, containers and grain basically established five transport systems; the first time exceeded 100 million annual containers, capacity more than 100 million DWT of ships. In 2008, financial crisis affected the global shipping industry into recession, but since 2009, China government 4000 billion Yuan investment effect gradually emerging, China's steel industry downstream, real estate, automotive rapid recovery. Iron ore, petroleum, coal and other bulk cargo increased demand for coastal transport insurance.

In 2009, with the recovery in external demand and domestic demand continue to boost China's marine insurance market began to pick up; the future will maintain rapid growth.

# Features and development trends of China marine cargo insurance market

Following Reform and Opening Up, China's macroeconomic and international trade with the rapid development of marine transportation market has brought unprecedented prosperity of marine cargo insurance. With the rapid development of domestic import and export business, China Cargo insurance market is facing great opportunities. Foreign insurance companies are using a world wide comprehensive on-line systems and one-stop insurance services, to make deep plowing in china domestic marine cargo insurance market. In 2007, foreign companies in the property insurance market have been great successful in marine cargo insurance and become an important part of insurance industry in China. In fact, rapid growth of marine cargo insurance market has become a "battleground".

Most property insurance companies are now in China running marine cargo insurance business basically can be divided into three categories. The first are domestic insurance companies, mainly in China, PICC, Ping An Property Insurance Co., Ltd., and China Pacific Property Insurance Co.,Ltd., who are typical marine cargo insurance companies in China, with rich experiences, strong underwriting and claims ability; The second, a group of rising stars such as Chinalife Property Insurance,Taiping Property Insurance, Huatai Property Insurance, Sunshine Property Insurance, Bank of China Property Insurance, whose business are also growing up steadily.

The third are the foreign property insurance companies, mainly AIU, Allianz, Winterthur, Sun Alliance, Mitsui Sumitomo, Tokyo Nichido Marine, Hyundai etc., who are recently joined in China marine cargo insurance competition, but have long experiences in international cargo transportation insurance operations, with strong and excellent services, the number of such companies in China has gradually increased, competition is accordingly getting more and more drastic.

China insurance legal circumstances allow enterprises free to select China based insurance companies, foreign based insurance companies. At present, main insurers involved in marine cargo insurance in China are including PICC Property and Casualty Co.,Ltd.(PICC), China Pacific Property Insurance Co Ltd (CPIC), AIU, Mitsui Sumitomo Insurance Co Ltd, etc.; Hull insurance mainly including PICC and CPIC.

As to the ship owners' liability insurance, mainly following international practice, China adopts the flexible attitude. Apart from the unique fix premium PandI Insurance, the PICC sales for more than 30 years, China Shipowners Mutual Assurance Association (CPI) and members of International Protection and Indemnity Group (International Pool of P & I Clubs), such as the West of England club, are all for the ship-owners' choice.

Meanwhile, main carriers in China ocean shipping market are large merchant fleet (such as COSCO, China Shipping), and the state owned local fleets (such as Fujian Shipping, Nanjing Tanker Shipping, etc.). In addition, private ship-owners, joint ventures and other foreign shipping companies are developing a more and more transportation volume.

Insurable conditions are mainly subject to specific types of goods involved, insurance values, insurance rates, coverage, main terms, deductibles, vessel age & class type, navigational area and the insurance period, the previous record of accident, record of loss and damage, etc.

# 3. Relevant Insurance types to marine cargo case



Marine cargo cases often involve in other types of insurance, as follows:

- First, collision clauses of hull insurance. Mainly underwriting the ocean voyage resulted from natural disasters; because of direct collision of the insured once the legal share of his ship or floating objects liability.

- Second, coastal and inner river cargo insurance. The main coverage in the domestic coastal and inland navigation in certain conditions, natural disasters, and direct collision of ships due to the physical losses; due to a direct collision, and the insured liability in law for ship or fixed floating objects.

- Third, the container body and liability insurance. The main coverage is the result of natural disasters or accidents caused by the physical loss of the damaged container; because container design defects, or damage, or the management negligence resulting in the third parties' life or property losses.

- Fourth, P&I compensation and protection. The main coverage is underwriting shipowner's risk during transport, in the responsibility to the crew and the cargo or oil spill caused by accident, salvage and third party life injury or property damage.

- Fifth, charter's liability insurance. Mainly coverage is marine cargo damages or losses on charter's responsibility as common carrier.

- Sixth, Cargo liability insurance. Ship agents or ship brokers who service as freight forwarders, NVOCCs (issuing house bills of lading), warehousemen or haulers, whose liability is usually the result of his own negligence, whereas a freight forwarder, NVOCC, warehouseman or hauler can incur a contractual liability through no fault of his own, including physical loss or damage to cargo, delays and other financial losses, third party liabilities, fines, penalties and customs duty.

# 4. Marine cargo claims and accident handling



Marine cargo damage or losses may occur in many occasions: fire, collision or contact with unidentified object, stranding, heavy weather, disposable goods, explosions, etc. The owner may have considered rescue jobs, towing, quenching fire, repair of damaged vessels, calling at the port of refugee, remove or restowage of goods; even the general average sacrifice, ask security and other issues.

The salvage parties, ship owners, repairers, insurance brokers, inspection, insurers' representatives, lawyers may possibly all present in an accident and all may require fees and charges relevant to the cargo interests, to clarify the scope of losses: first tangible losses, including the total loss (actual total loss, constructive total loss, compensation insurance, value), partial loss of (a particular average, general average, compensation for reasonable repair costs). Second, to determine the liability insured, including general average contributions; Third, to check the costs, including general average expenses, salvage and rescue costs, legal fees, recovery fees, inspection fees and other costs; Forth, to find if there is third party liability, including such as investigation on the seaworthiness of vessel.

# Additional items should be noted:

- First, the types of hull insurance. Including what insurance has been covered in shipowner’s operation and mortgagee interest insurance.
- Second, the ship's insurance interests and property rights. The including ship ownership, priority, liens, mortgages etc.
- Third, the hull insurance underwriting. Including the obligation of disclosure, shipping certificates, status and value of the ship, insurance and underwriting risk, and collision terms.

- Fourth, cargo insurance claims. Including the requirement of its claim for the insured to provide the certificate, insurance value and damage, a ship collision accident investigation, collision liability ratio, repair, shipment losses, indirect losses.

- Fifth, cargo insurance recovery. Including the investigation of evidence, evidence preservation, insurance benefits, guarantee letter, recovery strategies, and asset investigation.

- Sixth, cargo insurable interests. Who really bears insurable interests, under what circumstances having an insurable interest. China Insurance law stipulates that when an accident occurred, the claimant must have insurable interest.

# 5. Current procedures for marine cargo claims in China

Marine insurance claims involving a wide range of technically complex, often including navigation, mechanical technology and law. At present, China's marine insurers mostly employ independent surveyors and average adjusters to deal with these matters, often by using additional clauses to appoint surveyors and adjusters in marine cargo insurance policy, to process claims in the future for their clients for a fair and impartial result. (Surveyors' costs are paid by the insurer).

- Step one: Establishing file.

  Notice of Loss is the first process of marine cargo claims, including notify the nearest insurance agent aboard, arranging site surveyor and rescue work, collecting information, estimating future loss; once there could be a big loss, reporting to upper manager, and sending notice to the reinsurer.

- Step Two: Review of the documents, weighing responsibilities.

  Checking the reality of relevant documents and accident.

- Step three: confirming damage investigation.

  Further Inspection or finding out loss, including arrangement of joint inspection, laboratory test to research real damage reason and extent; all should be completed as soon as possible.

- Step four: recheck and confirm the practical loss.

Rechecking

1. Insurer's rechecking manager received the information, including claim settlement, documents;

2. Calculating the amount of compensation. The loss can also be calculated by an agent or average adjuster for the claim.

Approving

1. Claim manager in charge signs for approval;

2. Report to senior manager for higher amount authorization;

- Step Five: Wreck disposal.

  Wreck should be properly disposed of for reducing the loss and compensation.

- Step Six: Payment of compensation.

  Under the consent of the insured and insurer, or decision on following on average adjuster's result, payment of compensation will be effected.

  1. The compensation is directly paid to the insured;

  2. Confirming receipt of compensation, obtaining subrogation rights for proceeding recovery, or proceeding re-insurance contributions.

# 6. Import and Export Marine Cargo Claims Handling in China



# 1. Loss of export marine cargo.

The insurance policy holder (the importer) should put up with claims against stipulated agent in the insurance policy. Generally, insurers have agents in the world's major ports and cities, including survey agents and claim agents. The survey agent is responsible for checking the loss of goods. Sometimes, joint inspection involves by insurer surveyor, MSA, P&I surveyor, etc. The insurance policy holders have to obtain survey or inspection reports, accompanied by other necessary documents, claiming to the agents who may be authorized with a small amount to direct payment for compensation. The foreign importers claiming against agents must provide with the following documents:

- (1) the original insurance policy or certificate;
- (2) the shipping documents, bills of lading or contract
- (3) subject matter insured_invoices;
- (4) packing list;
- (5) claiming documents or certificates to the carrier for compensation in case the third party's responsible, that is what the insured has to do to fulfill the recovery assistance obligation;

- (6) inspection certificate or survey report from foreign insurance agent or public notary institutes as third party proof;
- (7) Sea Protest report. Marine cargo damage or loss proved by Sea Protest is generally compensated by the insurer when the carrier is not responsible;
- (8) certificate of cargo damage or tolerance;
- (9) damage or loss list.

# 2. Loss of import marine cargo

Insurance policy holder in China can directly claim against insurer. When imported goods arrive at China ports or inland destinations, the insurance policy holder should immediately notify the local insurer or its agent, and proceed a joint inspection by attendance with CIQ (China Inspection and Quarantine Bureau) and insurer as it may be necessary. If the damage or loss is within the insurance coverage, local insurance companies will issue "import shortage or inspection report." However, when involving foreign shippers, carriers, port authorities, rail or other third party’s responsibility for accident, causing damage or loss, once completing recovery procedures to the third party's, then insurer could proceed compensation.

Generally, the insurance policy holder should submit documents for their claims including

- (1) import invoices;
- (2) Bill of lading, tally sheet, outturn record or survey report;
- (3) discharge records at final destination.

If damage or loss involves handling and inland ports, or railway liability, the insurance policy holder should submit the responsible party's freight records or joint inspection report with relevant party.

# 7. Our practice as surveyor of marine cargo insurance -2 cases

# 1.MARGARET barge-grounding at Jacob's Bay in South Africa



Connecting tow line operation




Margaret with barges/drydocks departed from Shanghai



Broken Cable towing line on board a tug




Grounding at Jacob's Bay,South Africa



Wreck Blown up during the wreck removal operation

The accident occurred near Cape of Good Hope in winter, there were bad weather and strong winds at sea. At 2357LT on June 23rd, when the towing body passed the northwest of Cape Town, about 20 miles to Saldanha Bay,, the tug cable was broken during the high winds and waves, about 1000M cables onboard went away with the barges. The tug party reported that they had tried to use cables to connect towing body, but has not been successful. On June 24th, 2009, the floating towing body grounded in JACOBS Bay. Finally, after failure of salvage, the wreck was blown up.

In this voyage of no engine barge towing, which is featured with big gale area, inferior seaworthiness, low speed and a longer voyage time, often means higher risks. Salvages cost estimation played an important role in cargo claims consideration. In fact, it was difficult to investigate and distinguish between fact and evidence, to decide recovery on tug party's responsibility.

Anyway, towing voyage Underwriter is to be strictly attached to complete Towcon, the tug status, seaworthiness certificate, tug owner qualification, safety record, and arrange proper reinsurance, to prevent from serious loss.

# 2. mv. Northern Pearl- intermediate shaft broken in Tianjin port,China




mv. Northern Pearl Towed back to Tianjin terminal



Propellor - fish net wrapped



Broken intermediate shaft



Rust found

Investigation of marine cargo loss caused by engine accident, not only the engine survey, but also involves many aspects, such as professional tests and metal specialist's comments, to find the real cause of the accident in a case.

In 2009, through our surveyors' investigation on board and professional analysis, mv. Northern Pearl was found the intermediate shaft broken by rusts. Meanwhile, less dense of structure was also found with forging workpiece. Those findings gave the insurer great help in handling claims

# 8. Marine cargo claims encourage international cooperation to meet the challenges of globalization



The world is becoming more and more globalization. Marine cargo accidents, which are happening all over the world, involving more and more different areas. Professional cooperation is getting more and more important. When a marine cargo happens, as facing local customs, immigrations, inspection and quarantine departments, port cargo handling, ship owners and P&I club, class societies, even to maritime arbitration or maritime court, we need worldwide lawyers, surveyors and experts joining the case. A worldwide service network is more and more crucial for success, which can help us doing better in global competition. We believe and are willing to work together with international partners, make unremitting efforts for the development of world marine insurance industry.

# Thank you!

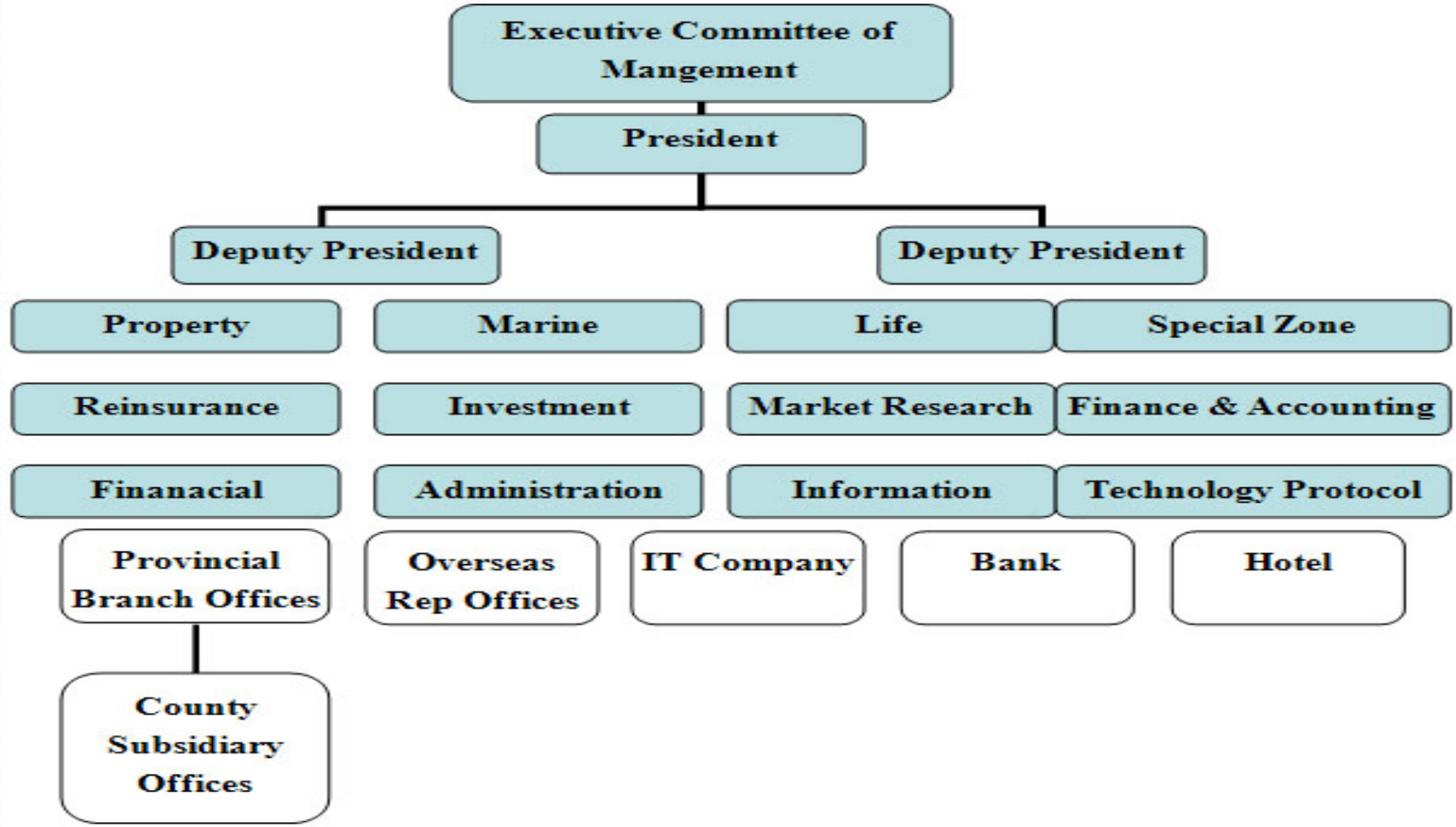
# GENERAL REVIEW OF MARINE CARGO INSURANCE IN DPR KOREA

Kang Sun Il, Managing Director,
Korea National Insurance Corporation

# THE HISTORY OF KNIC

- established on 10th July 1947
- reorganized as State Insurance Company in January 1954
- started in 1960 and expanded its reinsurance business transactions ,in the name of “Korea Foreign Insurance Company” in 1971
- become as a life and non-life insurance firm and renamed as “Korea National Insurance Corporation” in May 2005.

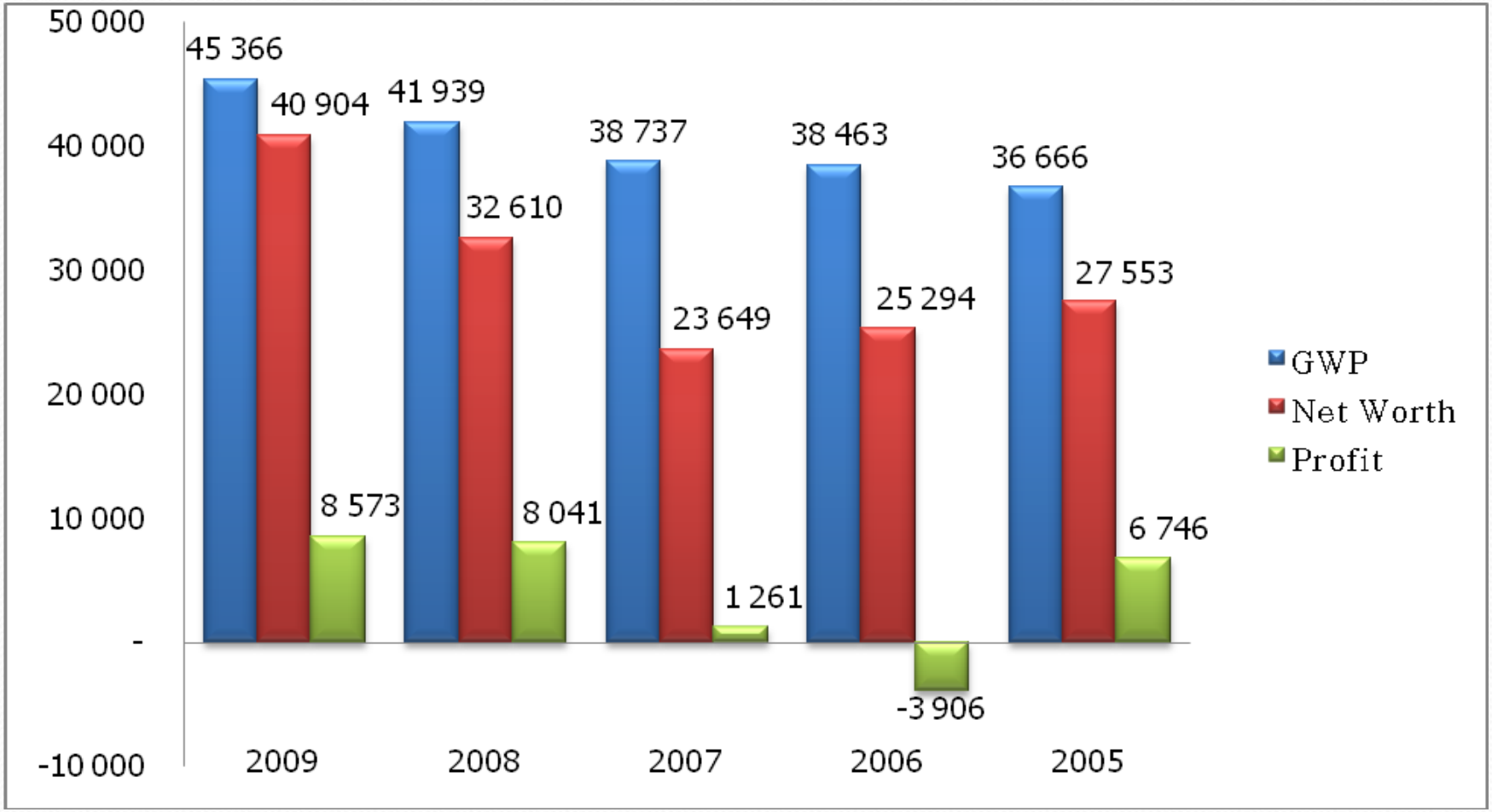
# CORPERATE STRUCTURE



# KEY FINANTIAL FIGURES

| Items | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| Gross written premium | 45,366 | 41,939 | 38,737 | 38,463 | 36,666 |
| Investment revenue | 1,663 | 1,597 | 4,482 | 5,112 | 2,670 |
| Pre-state payment result | 12,701 | 11,912 | 1,868 | - 3,906 | 9,994 |
| Profit for the year | 8,573 | 8,041 | 1,261 | - 3,906 | 6,746 |
| Investments | 42,814 | 42,122 | 37,420 | 34,466 | 38,422 |
| Net Worth | 40,904 | 32,610 | 23,649 | 25,294 | 27,553 |
| Net underwriting provisions | 41,843 | 47,550 | 49,897 | 40,609 | 41,766 |
| Combined ratio Non-Life | 65.4% | 55.9% | 111.4% | 165.4% | 60.2% |

# KEY FINANTIAL FIGURES



# MARINE CARGO INSURANCE IN DPRK

**1. Effecting the contract of insurance in our country**
**2. Rating System of Marine Cargo Insurance**
**3. Characteristics of Marine Cargo Insurance**
A. International feature
B. Application of international practice
C. Application of Free rate
D. Accumulation of risks
**4. Effecting marine cargo insurance**
**(1) Provisional Insurance**
**(2) Open cover**
**5. Ratings and selecting coverage condition**
**(1) Types and Calculation of Premium Rate**
**(2) Selecting applicable insurance condition**
**6. Claim and Settlement**

# Marine Cargo Claims & Adjustments
# An Overview

Since 1943
J. B. BODA GROUP



*Welcome* & *Namaste*

## *Delegates to Pyongyang International Insurance Seminar - 2010*

*Marine Cargo Claims & Adjustments© by Capt. Satish Bhandary (Director)*
*J.B. Boda Surveyors Pvt. Ltd. Mumbai (India)*

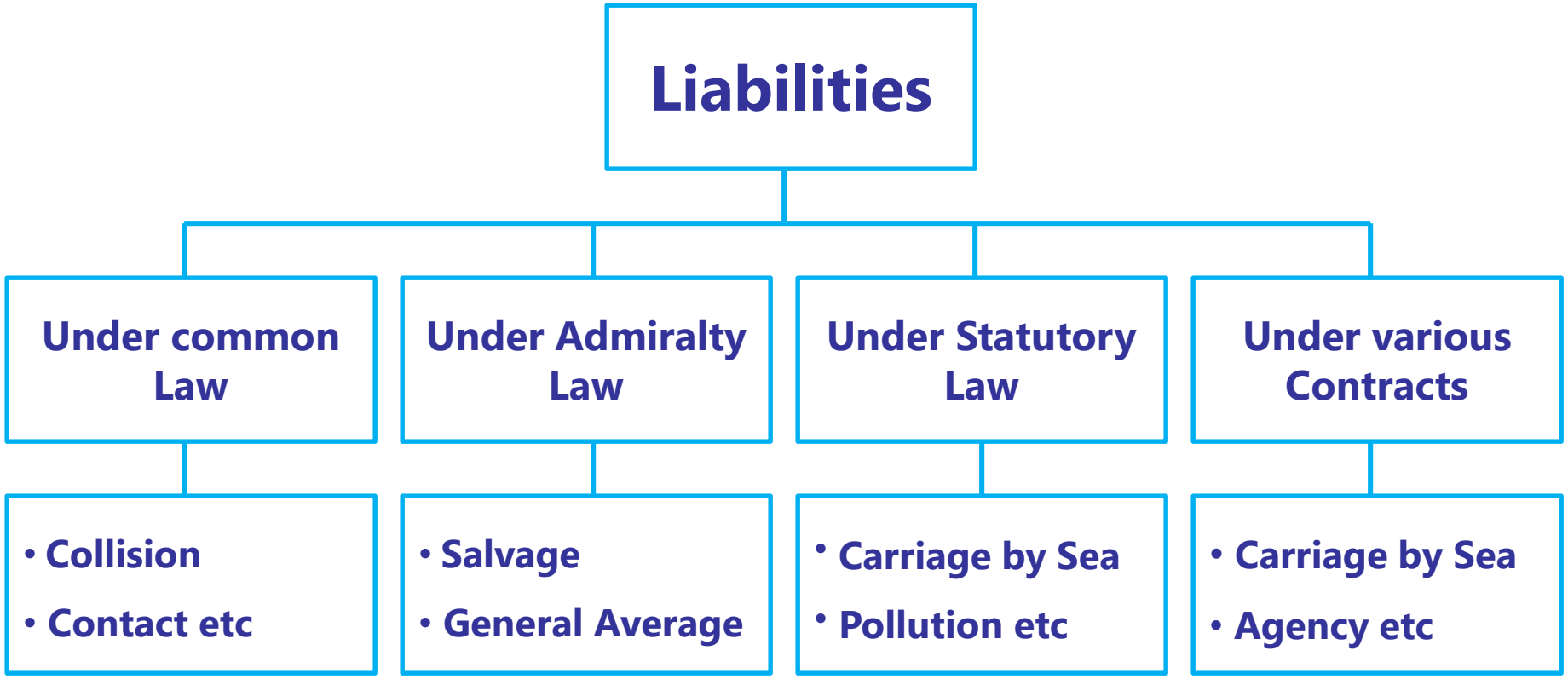
# Presentation Objectives

1. *Brief overview of the evolution of marine cargo Insurance*
2. *Brief discussion on salient features of marine cargo insurance cover*
3. *Marine cargo covers available and comparisons.*
4. *Marine Cargo claim processing and settlement.*

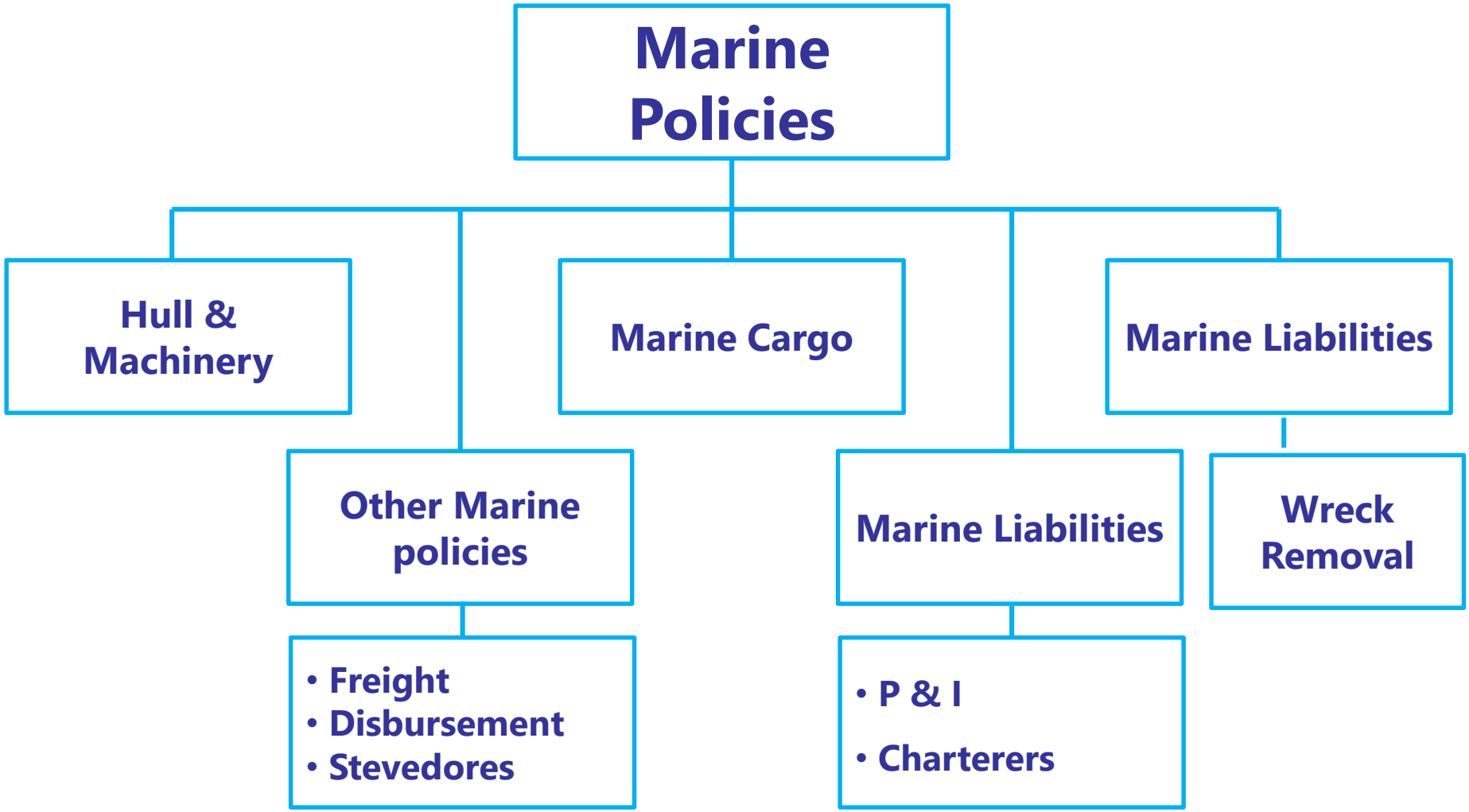
# Presentation Plan

1. *Introduction to Cargo Insurance.*
2. *Marine Cargo Insurance covers.*
3. *Claims settlement – documentation.*
4. *Claims processing & settlement.*

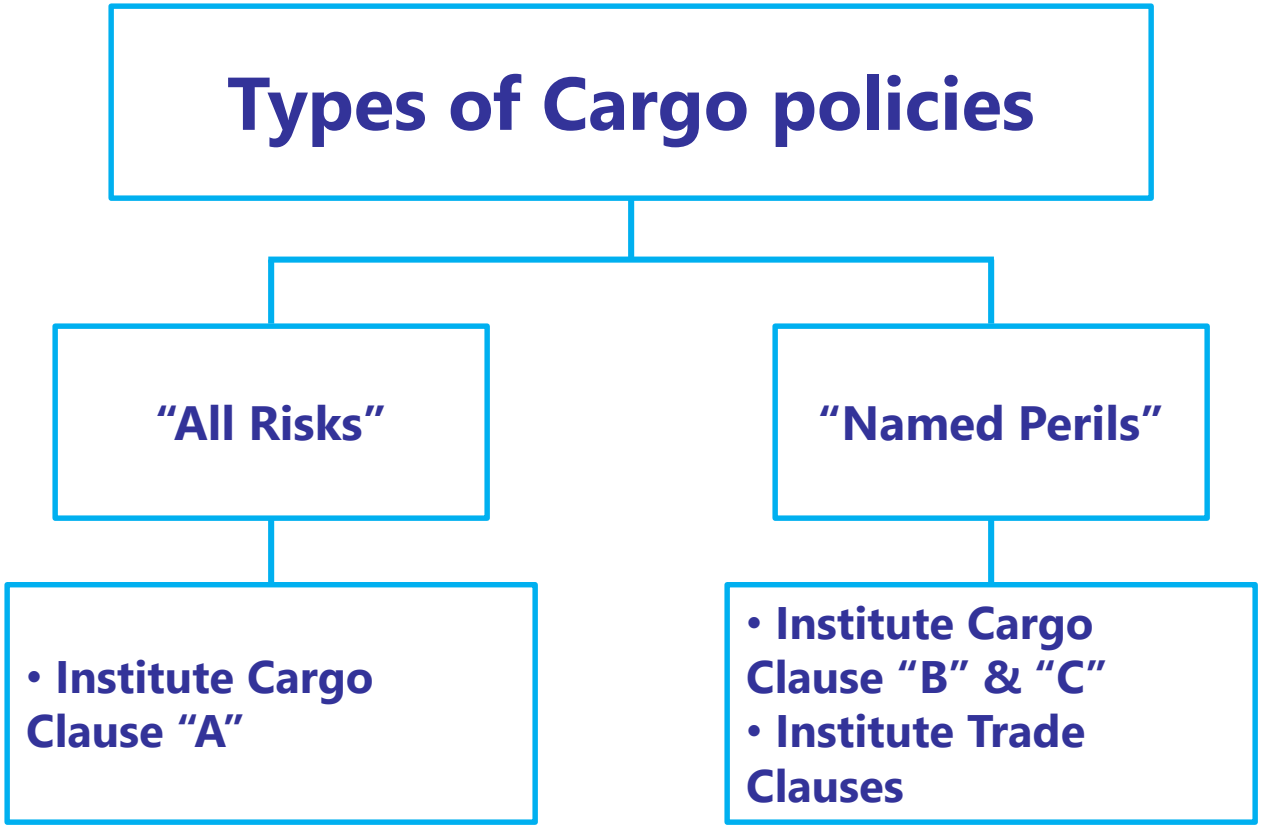
# *Classification of Marine Insurance Policies*



# Classification of Marine Insurance Policies



# Cargo Insurance Policies



# Comparison – Marine Cargo Clauses – A, B & C

| | Risks Covered | Clause | | |
|---|---|---|---|---|
| | | A | B | C |
| 01 | Fire / Explosion | √ | √ | √ |
| 02 | Stranding / Sinking | √ | √ | √ |
| 03 | Barrantry / Jettison | √ | √ | √ |
| 04 | Collision | √ | √ | √ |
| 05 | Theft / Pilferage / Non-delivery | √ | X | X |
| 06 | Shortage | √ | X | X |
| 07 | Contamination / Heavy weather | √ | X | X |
| 08 | Spontaneous combustion (self heating) | X | X | X |
| 09 | War / Strikes / Civil instability | √ | X | X |
| 10 | Terrorism / Piracy | X | X | X |
| 11 | G. A. Sacrifice | √ | √ | √ |

# Comparison – Marine Cargo Clauses – A, B & C

| | Risks Covered | Clause | | |
|---|---|---|---|---|
| | | A | B | C |
| 12 | Earthquake / Volcanic eruptions / Lightning | ✓ | √ | X |
| 13 | LOB (Sling-loss) / Washing overboard | ✓ | √ | X |
| 14 | Discharge in Port of refuge / Distress | ✓ | √ | √ |
| Note: Under cover "A" – All risks, except exclusions (caused by or arising out of) | | | | |
| 01 | Rough handling (Bursting of bags, Breakage, Leakage, Sweat / Condensation, Rain water, Improper stowage, Contamination (Taint damage) | √ | X | X |

# *Other Industry specific clauses:*

- ***Institute Strikes clauses (Cargo)***
- ***Institute War clauses (Cargo)***
- ***Institute Classification clause***
- ***Timber Trade Federation clause***
- ***Bulk oil***
- ***FOSFA Clauses***

*Rejection Cover with limited availability (expensive) cover provided on the basis that goods are provided, prepared and supplied in accordance with current government regulations of the country of import*

# *Standard Exclusions:*

- *Delay*
- *Inherent Vice / Nature*
- *Insufficiency & unsuitability of Packing*
- *Ordinary leakage / Loss of weight/volume during transit*
- *Wilful Misconduct / Fraud*
- *Insolvency / Financial default*

# *Exclusions:*

***Clause 4.1**: Wilful misconduct*

***Clause 4.2:** Ordinary leakage, loss in weight / volume*

***Clause 4.3:** Insufficiency / Unsuitability of packing, ordinary wear and tear*

***Clause 4.4:** Inherent vice or nature of subject matter*

***Clause 4.5:** Delay, even if caused by an insured peril*

***Clause 4.6:** Insolvency / financial default*

***Clause 4.7/4.8:** Weapon of war using atomic or nuclear fission/fusion radio-active force or matter (4.7 in "A", 4.8 in "B" & "C")*

***Clause 4.7:** (in "B" & "C") Deliberate damage to or deliberate destruction of subject matter.*

***Clause 5.0:** Un-seaworthiness / Un-fitness of vessel, Conveyance, Container*

***Clause 6.0:** War risks*

***Clause 7.0:** Strikes, Lockouts, Civil commotion*

# Risks:

- ***Loss***
- ***Total***
- ***Constructive Total***
  - *Abandonment*
  - *Arranged / Compromised*
- ***Partial Loss***
  - *What proportions loss is partial loss*
  - *Deductibles*

# Risks: (contd.)

***Perils of the Sea***

- *Stranding / Sinking / Collision / Heavy weather / Theft / Jettison / Barrantry*

***Extraneous Risks***

- *Non-delivery / Sweat / Spontaneous combustion(Self heating)*

***Political***

- *War*
- *Strikes / Civil commotion*
- *Terrorism / Piracy*

# Risks: (contd.)

## Fundamental characteristics of Marine Insurance contracts

*Marine Insurance Act, 1906*

- *Utmost good faith*
- *Insurable interest*
- *Proximate cause*
- *Mitigation*
- *Principle of Indemnity*

# Cargo

## Common areas of Cargo claims

- *Loss of Cargo*
- *Shortage of Cargo*
- *Damage of Cargo*
  - *Wetting*
  - *Fire*
  - *Breakage*
  - *Contamination*

# All Risks

***Assured has the burden of proving that some fortuitous loss or damage has occurred during the time the policy was in effect. He does not have to show the exact cause of loss.***

# *Edifice of a Cargo Insurance Policy*

- *Proximate cause, Insured perils, Warranties, deductibles etc.*
- *Principle of Indemnity*
- *Principle of utmost good faith*
- *Insurable Interest*

# Loss Control / Loss Minimisation

- *Vessel selection*
- *Age*
- *Flag*
- *Type*
- *Class / Management*

## Cargo

- *Operations*
- *Type of Cargo*
- *Packing*
- *Method of loading / discharging*
- *Port Peculiarities*

# *Sue and Labour Expenses*

*Fundamentally Sue & Labour expenses are expenses incurred to minimise the loss. This provision or cover exists in H&M Insurance also. These include reconstitution charges, Legal expenses for recovery, Salvage charges, disposal of Salvage etc.*

# Cargo Claim Processing

***Documents***

- *Insurance policy*
- *Bill of Lading*
- *Invoice & Packing List*
- *Survey Report – Joint Survey (if required)*
- *Loss intimation*

## *Survey report contains among other things*

- *The nature of loss or damage*
- *Possible cause of loss or damage*
- *When & where loss occurred*
- *Extent of loss or damage*
- *Delays attributed to the insured*
- *Whether Insured has preserved the Rights of Recoveries against carriers or Bailees (Port / warehouse authorities)*

# *Cargo Claim Processing*

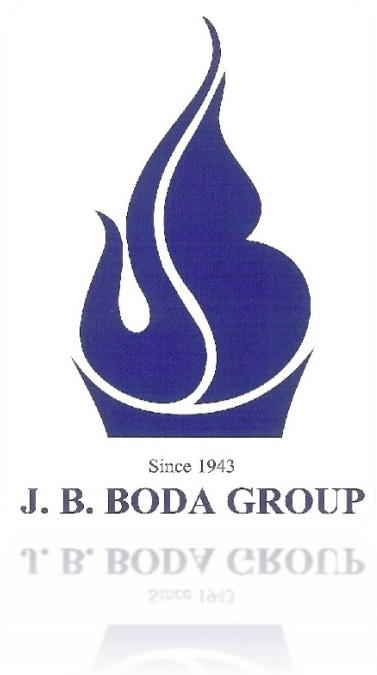
- *Whether the loss or damage occurred within the period of Insurance*
- *Whether warranties complied with:*
  - *Under deck stowage*
  - *Packing*
  - *Loading / Discharge supervision by Surveyors*
  - *Delay in delivery*

*Notes:*

*Warranties are inserted in the Policy to minimise the risk of loss. Breach can lead to rejection of claim. In practice, Insurers may waive a breach of warranty if such breach is not a contributory factor to the loss.*

# *Additional documents as required:-*

- *Certificate of "Non-delivery" or "Short-delivery".*
- *Note of protest with casualty details in case ship suffered casualty (Heavy weather, Fire, Grounding, Collision etc)*
- *"Landing" certificate of the Port / Inward receipt of warehouse*
- *LOB (Loss overboard) Certificate for sling loss.*




# *Thank you*

# *Delegates*

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# Cargo Insurance and Reinsurance - London's position in a Global Market

Giles Penfold

June 2010

COOPER GAY

# What is Cargo?

An International Business

Cargo insurance covers loss of or damage to goods and/or merchandise whilst in transit by Land, Sea and Air







COOPER GAY

# Asian Regional Centres





# The London Market

## Lloyd's





# International Companies



























# Lloyd's: 1688 – 2010



- **Face-to-Face**
- Old Fashioned?
- Out-dated?
- **Efficient**
- **Effective**



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# Joint Cargo Committee

- London Market Association




- Institute Cargo Clauses

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# Institute Cargo Clauses - Changes at 1/1/2009

- Side Headings
- Definition of the Assured
- Packing & Preparation
- The Delay Exclusion
- The Insolvency Exclusion
- Nuclear Accidents
- The Unseaworthiness Exclusion
- Terrorism
- Duration of Transit
- Change of Voyage
- Benefit of Insurance
- General Updating

# Joint Cargo Committee

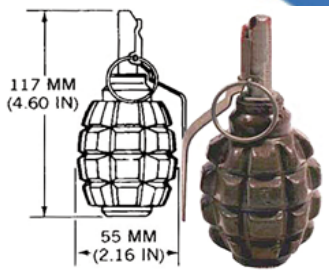
- London Market Association




- Institute Cargo Clauses

- Market Reports and Advice – Export Control Order

# Export Control Order




- The Export Control Order 2008 came into effect in April 2009 to control the trading of military goods between two overseas destinations by UK companies and individuals that operate anywhere in the world. It does not apply to the import or export of such goods to or from the UK.
- Those involved in certain types of activity, including arranging (re)insurance, must be licensed. Failure to comply is a criminal offence for which offenders can be fined and/or imprisoned for up to ten years.







# Joint Cargo Committee

- London Market Association




- Institute Cargo Clauses
- Market Reports and Advice – Export Control Order
- Global Cargo Watch List



# Global Cargo Watch List

- War Risks Rating Committee disbanded 2004
- Exclusive Analysis CREAM used as base for new WSRCC risk guide
- JCC regularly up-date



- Low
- Caution
- Elevated
- High
- Severe






- www.watch.exclusive-analysis.com/lists/cargo/

# Piracy


CARIBBEAN
Caribbean Sea

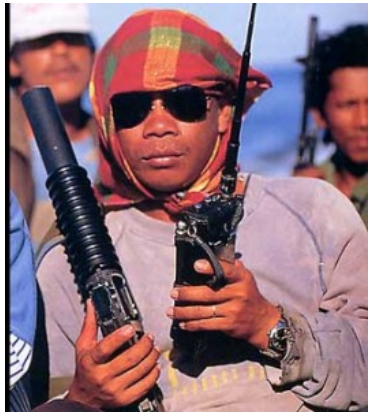

Andaman Sea
Phnom Penh
Nha Trang
Gulf of Thailand
Ho Chi Minh City
South China
Nicobar Islands (INDIA)
Banda Aceh
George Town
ACEH
MALAYSIA
Kuala Lumpur
Natuna Besar
RIAU
Strait of Malacca
Medan
Pulau Simeulue
SUMATERA UTARA
Pulau Nias
Pekanbaru
SINGAPORE
Singapore
Pontianak
RIAU
KALIMANTAN BARAT
Padang
SUMATERA BARAT
JAMBI
Jambi
Pulau Siberut
Selat Karimata
Pulau Bangka
Sumatra
Palembang
Billiton
SUMATERA SELATAN
Bengkulu
BENGKULU
Tanjungkarang-Telukbetung
GREATER SU
JAKARTA RAYA
JAWA TENGAH
LAMPUNG
Jakarta
Semarang
Selat Sunda
JAWA BARAT
Bandung
Java
Yogyakarta
JAWA
YOGYAKARTA
INDIAN OCEAN

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# Piracy





# Piracy

- Physical Damage / Ransom
- Sue & Labour v General Average
- Marine Insurance Act 1906 Sections 66 and 78
- Masefield v Amlin 2010
- “in reality there was a reasonable hope and perhaps even a likelihood that the ship and cargo would be recovered by payment of a ransom”
- Royal Boskalis v Mountain 1999
- “the assumption … that payment of a ransom, if not itself illegal, is recoverable as an expense of suing and labouring is well founded.”

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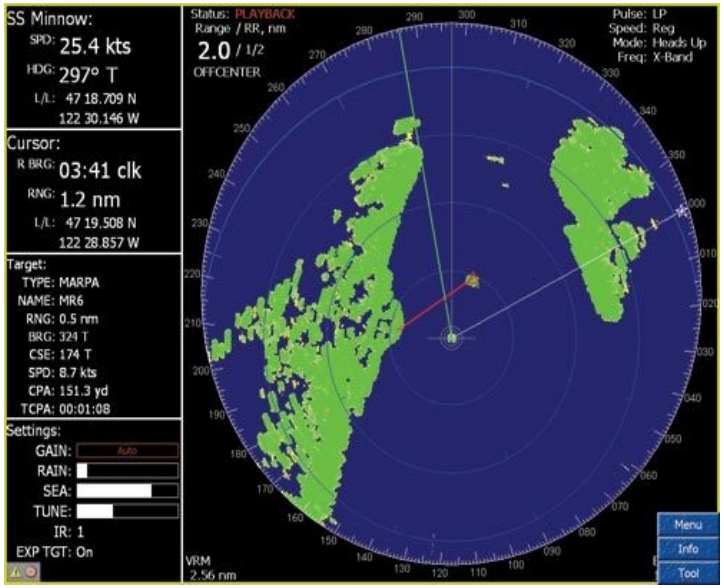


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ZUYD ZEE






SS Minnow:
SPD: 25.4 kts
HDG: 297° T
L/L: 47 18.709 N
122 30.146 W
Cursor:
R BRG: 03:41 clk
RNG: 1.2 nm
L/L: 47 19.508 N
122 28.857 W
Target:
TYPE: MARPA
NAME: MR6
RNG: 0.5 nm
BRG: 324 T
CSE: 174 T
SPD: 8.7 kts
CPA: 151.3 yd
TCPA: 00:01:08
Settings:
GAIN: Auto
RAIN:
SEA:
TUNE:
IR: 1
EXP TGT: On
Status: PLAYBACK
Range / RR, nm
2.0 / 1/2
OFFCENTER
Pulse: LP
Speed: Reg
Mode: Heads Up
Freq: X-Band
VRM
2.56 nm
Menu
Info
Tool

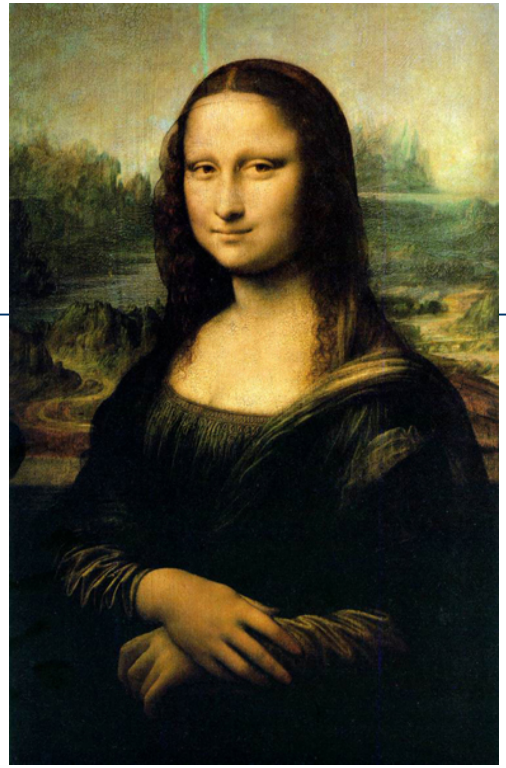
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# Containerisation





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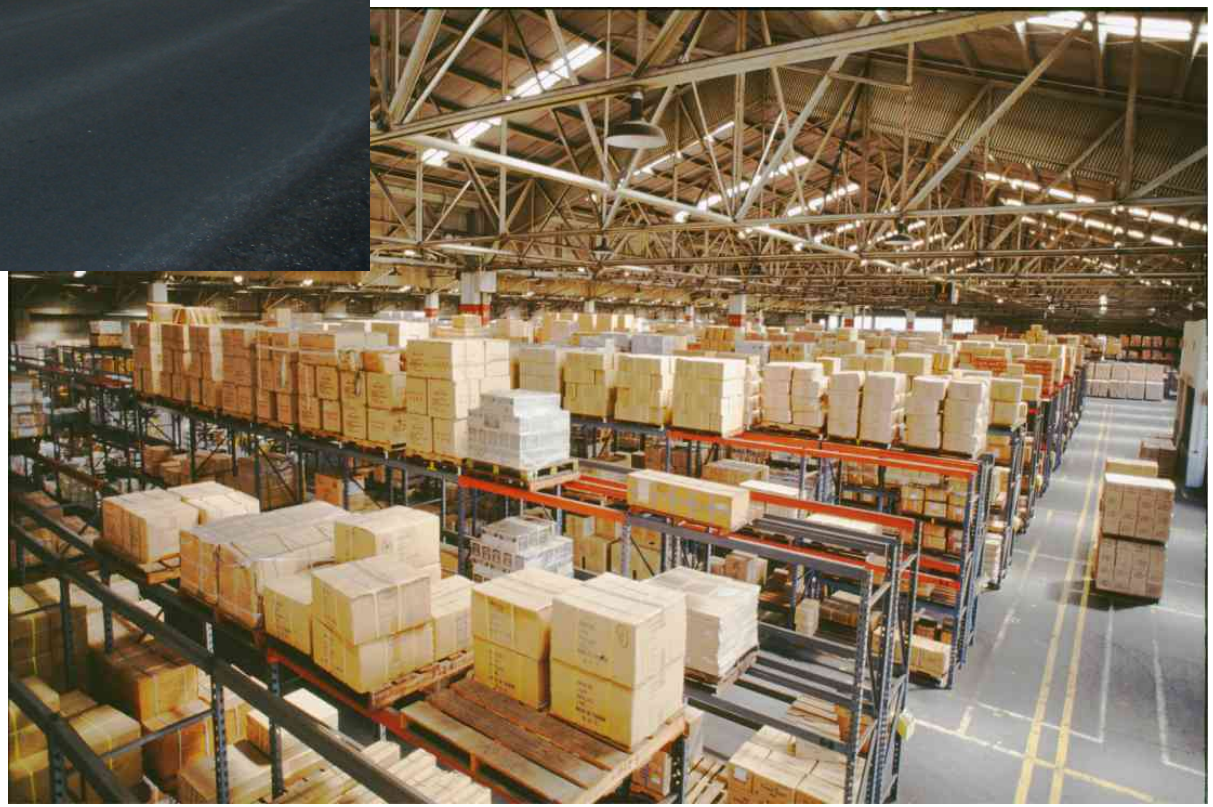






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PBR 105
Providing carrier service beyond customer expectations!



COOPER GAY

# Global Business




ISUZUGAWA
ISUZUGAWA

COOPER GAY

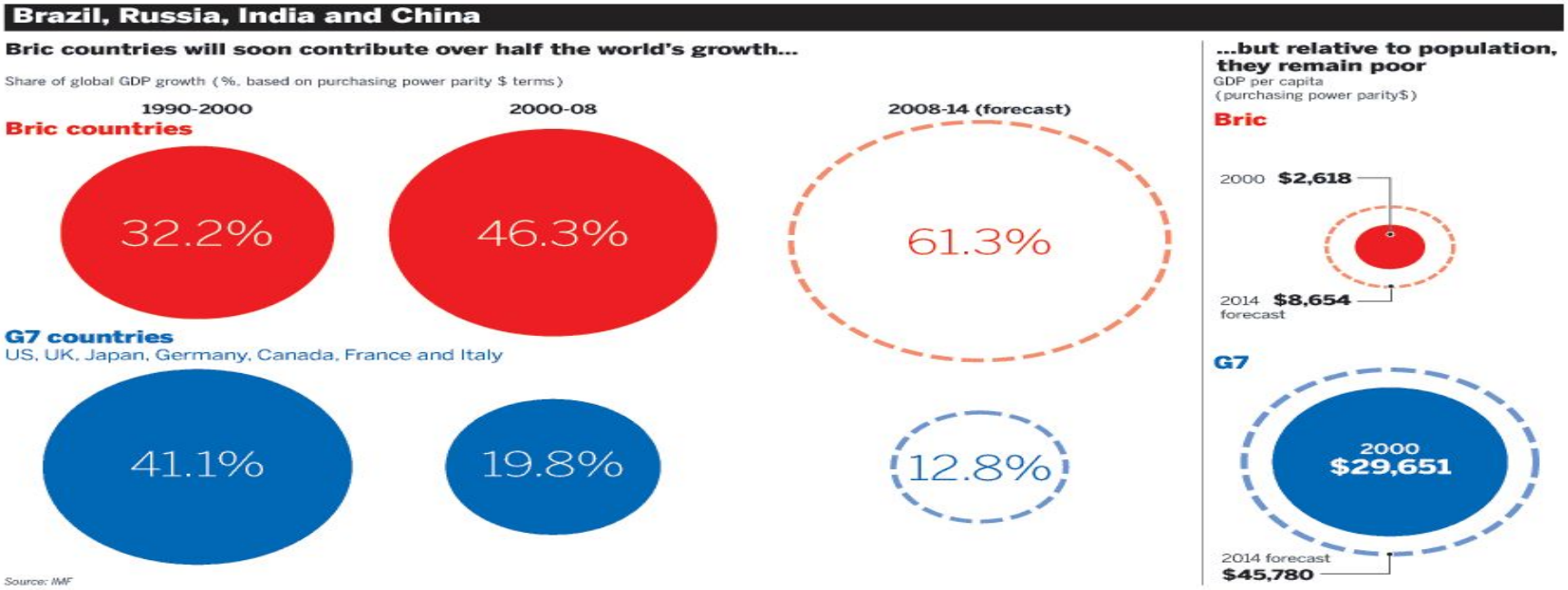
# Global Financial Crisis



# Recovery



# BRIC


Brazil, Russia, India and China
Bric countries will soon contribute over half the world's growth...
Share of global GDP growth (%, based on purchasing power parity $ terms)
1990-2000
2000-08
2008-14 (forecast)
Bric countries
32.2%
46.3%
61.3%
G7 countries
US, UK, Japan, Germany, Canada, France and Italy
41.1%
19.8%
12.8%
Source: IMF
...but relative to population, they remain poor
GDP per capita
(purchasing power parity$)
Bric
2000 $2,618
2014 $8,654
forecast
G7
2000
$29,651
2014 forecast
$45,780
The Brics are on track to overtake developed economies in size before 2050...
GDP growth (annual % change)
15
10
5
0
-5
-10
2000 01 02 03 04 05 06 07 08 09 10 11 12 13 14
IMF forecasts
China
India
Russia
Brazil
G7
Source: IMF
Share of world GDP (%)
100
80
60
40
20
0
1500 1600 1700 1800 1850 1900 1950 2000 2020 2050
(Goldman Sachs forecasts)
Rest of world
China
India
Russia
Brazil
Japan
US
Western Europe
Source: Goldman Sachs
...but private consumption remains relatively weak
Household consumption expenditure, 2008
(as % of GDP)
US 71.0
UK 64.4
Brazil 60.7
Italy 59.1
Japan 57.8
France 57.1
Germany 56.4
Canada 55.7
India 54.5
Russia 48.6
China 37.3
Source: UN

# Stock Through-put

- Transit of Raw Materials
- Storage of Raw Materials and Semi-Finished Goods
- Transit of Finished Goods
- ‘Hub Storage’
- Distribution

# When it all goes wrong







Inland Perils



Highland Hazards



Flood Damage at Port Terminal



Heavy Weather



Container Theft



Theft following Disaster



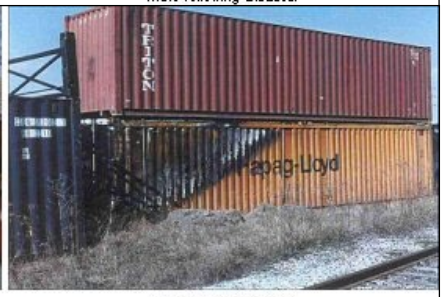
Heavy Weather



Vessel Strandin due to Navigation Error



Heavy Weather



Fire at Container Yard





Improper Handling

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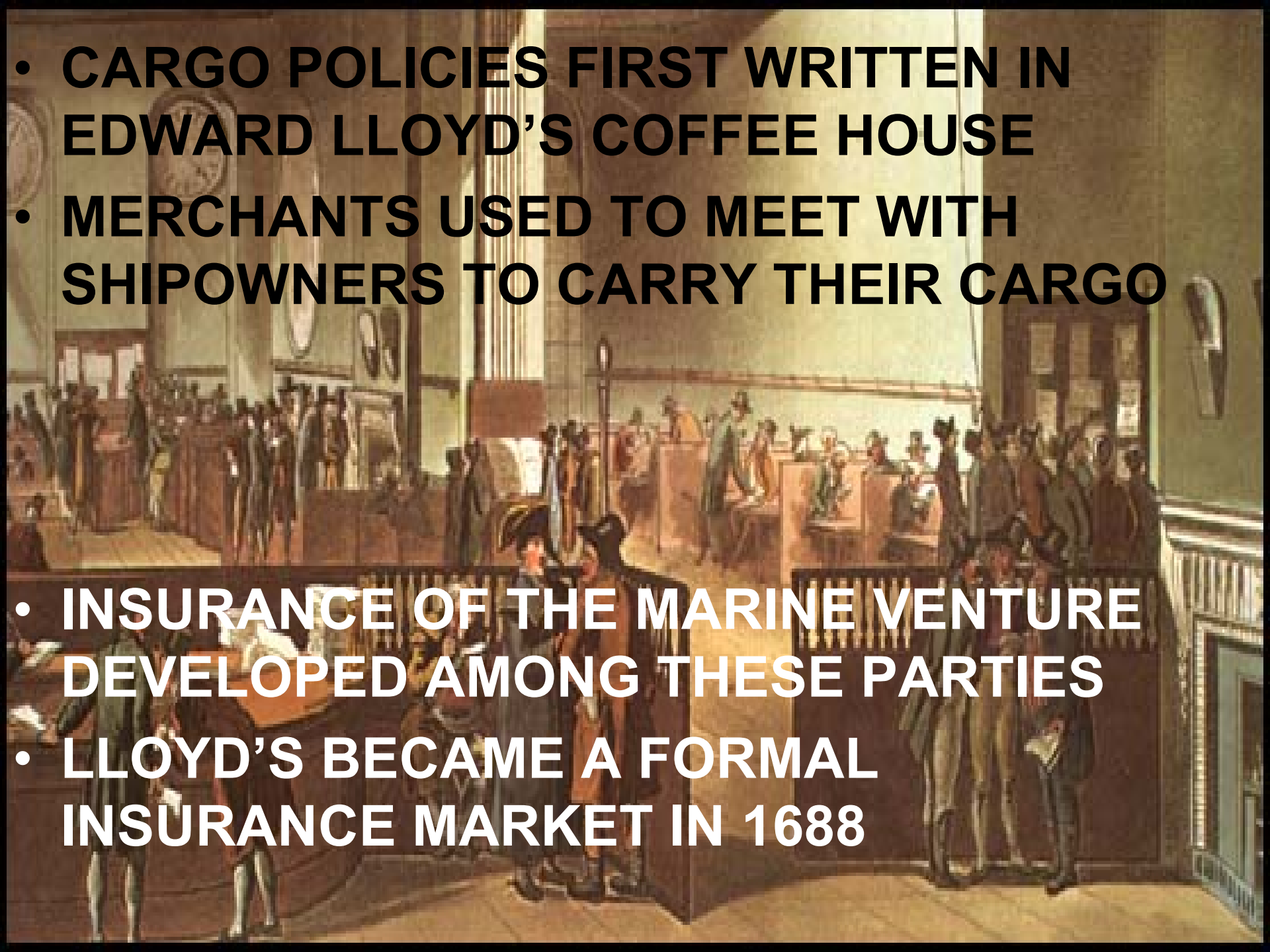
# Thank You





# London Cargo Market

Mark Jesson
Alsford Page & Gems Limited



- CARGO POLICIES FIRST WRITTEN IN EDWARD LLOYD'S COFFEE HOUSE
- MERCHANTS USED TO MEET WITH SHIPOWNERS TO CARRY THEIR CARGO
- INSURANCE OF THE MARINE VENTURE DEVELOPED AMONG THESE PARTIES
- LLOYD'S BECAME A FORMAL INSURANCE MARKET IN 1688




- IN 2007 LONDON OFFERS SIGNIFICANT CAPACITY FOR CARGO INSURANCE
- PROVIDED BY LLOYD'S & INSURANCE COMPANIES
- BUSINESS PRODUCED BY INSURANCE BROKERS
- MARKET SUPPORTED BY CLAIMS & RECOVERY AGENTS & SPECIALIST LAW FIRMS

- COVER AVAILABLE FOR ALL TYPES OF CARGO
- MOVEMENTS BY SEA, AIR, ROAD & RAIL
- USUALLY INSURED UNDER AN OPEN COVER
- PROTECTION FOR ALL VOYAGES WORLDWIDE






- STANDARD COVER IS ALL RISKS
- WAREHOUSE TO WAREHOUSE
- POLICIES TAILORED TO ASSURED'S SPECIFIC REQUIREMENTS
- RATES CHARGED AS PERCENTAGE OF INSURED VALUE
- CLAIMS CAN BE PAYABLE IN COUNTRY OF DESTINATION

# INFORMATION REQUIRED BY UNDERWRITERS

- NAME OF THE ASSURED
- LOSS RECORD FROM PREVIOUS SHIPMENTS
- EXACT DETAILS OF INTEREST TO BE INSURED
- VOYAGES TO BE INSURED
- TYPE OF SHIPMENT
- HOW PACKAGED
- RELATIONSHIP OF ASSURED TO OTHER PARTIES IN SALE CONTRACT
- VESSELS & SHIPPING LINES TO BE USED

# CONTAINERISATION



# BULK SHIPMENTS

- DRY BULK

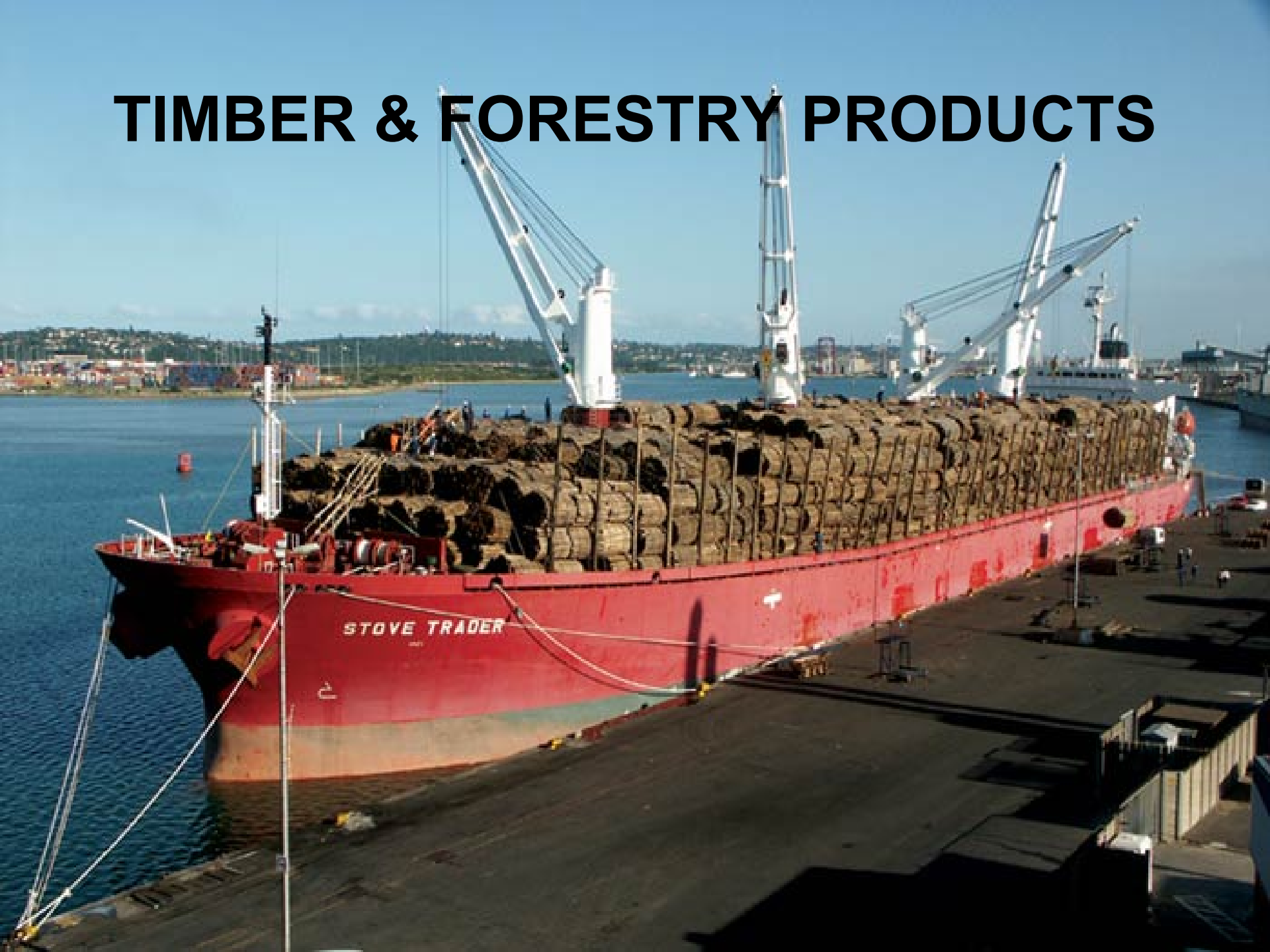


# BULK SHIPMENTS

- LIQUID BULK – MINERAL OIL, VEGETABLE OIL, CHEMICALS



# TIMBER & FORESTRY PRODUCTS



# HAZARDOUS CARGOES



# METALS




- PRONE TO RUSTING, TWISTING, BENDING & DISTORTION
- PACKAGING & MOISTURE PROTECTION ESSENTIAL

# VALUABLE CARGO



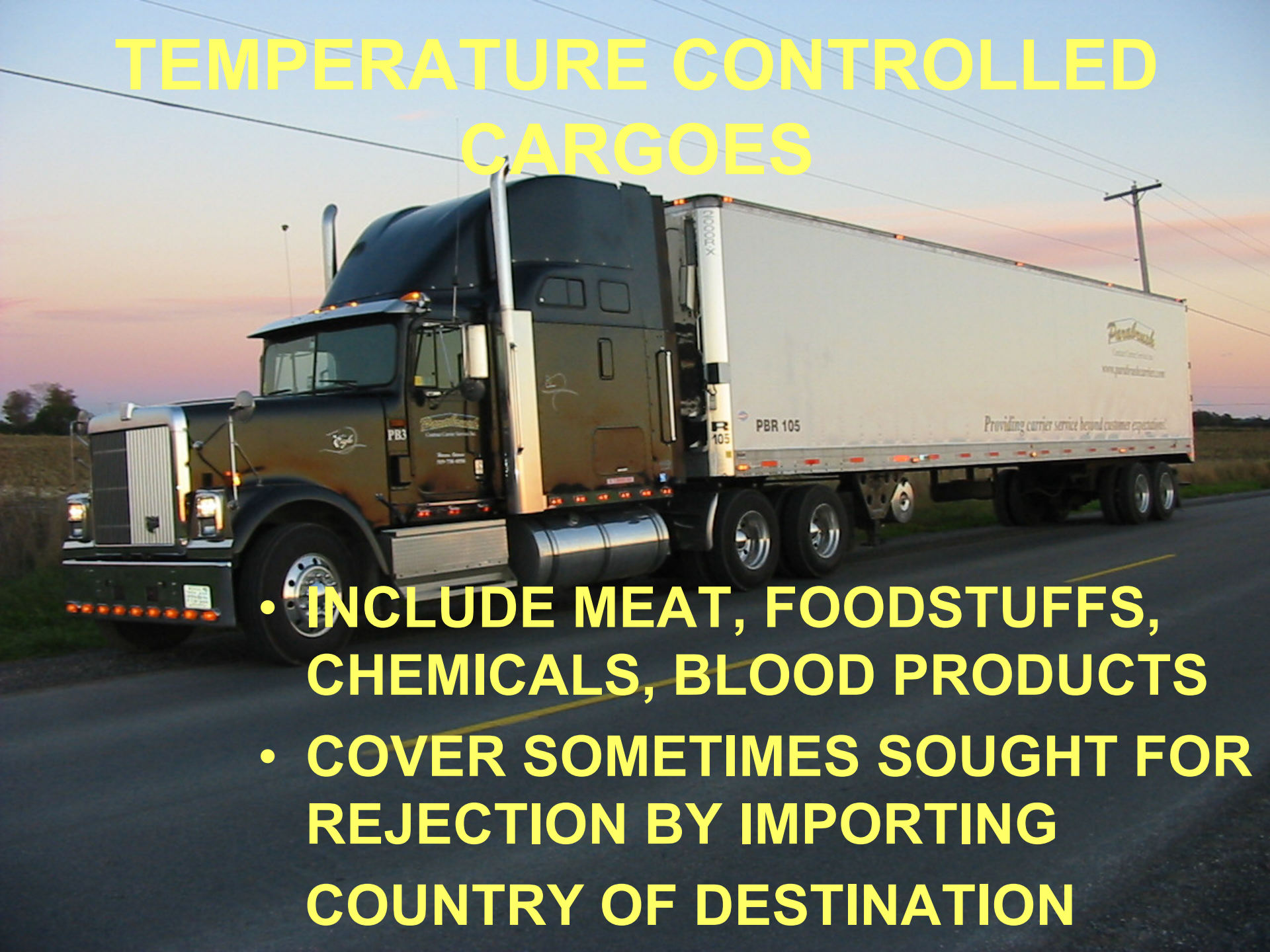
- SECURITY OF ENTIRE TRANSIT VITAL
- NORMALLY SHIPPED BY AIR

# CARGO FOR THE POWER INDUSTRY



- LARGE GENERATORS & TURBINES
- LOSS OF PROFITS COVER OFTEN REQUIRED
- LARGE SUMS INSURED
- SURVEYOR REQUIRED

# TEMPERATURE CONTROLLED CARGOES




- INCLUDE MEAT, FOODSTUFFS, CHEMICALS, BLOOD PRODUCTS
- COVER SOMETIMES SOUGHT FOR REJECTION BY IMPORTING COUNTRY OF DESTINATION

# TOWAGE RISKS

- CARGO OFTEN DIFFICULT TO MOVE
- SURVEYOR INSTRUCTED
- INCLUDE CONTAINER CRANES, GENERATORS & VESSELS





# SATELLITES IN TRANSIT

- TRANSIT TO MANUFACTURING LOCATIONS
- AIR OR SEA FREIGHT TO LAUNCH SITE
- INTEGRATION TO LAUNCH VEHICLE
- PRE LAUNCH RISK AT POINT OF LIFT OFF


• INSURANCE
• REINSURANCE
• FACULTATIVE
• QUOTA SHARE
• EXCESS OF LOSS

# WHEN IT ALL GOES WRONG



- ON THE INLAND LEG



# WHEN IT ALL GOES WRONG

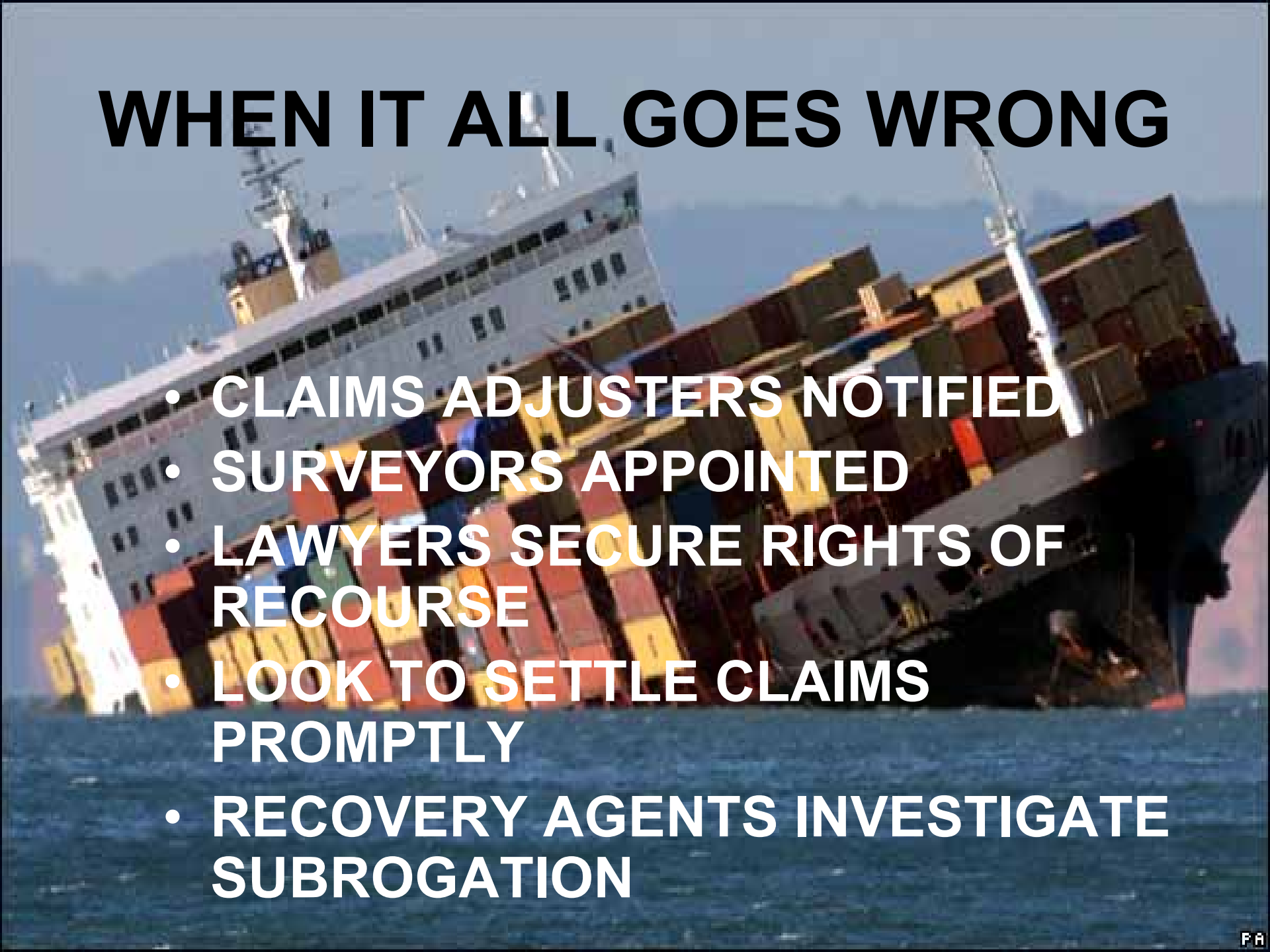
- AT SEA



# WHEN IT ALL GOES WRONG

- BY AIR

# WHEN IT ALL GOES WRONG



- CLAIMS ADJUSTERS NOTIFIED
- SURVEYORS APPOINTED
- LAWYERS SECURE RIGHTS OF RECOURSE
- LOOK TO SETTLE CLAIMS PROMPTLY
- RECOVERY AGENTS INVESTIGATE SUBROGATION

# JOINT CARGO COMMITTEE



- APPOINTED FROM LLOYD'S & COMPANIES
- TO FORMULATE VIEWS ON CARGO MARKET ISSUES
- CUSTODIANSHIP OF INSTITUTE CARGO CLAUSES

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Delivering the promises

# *FAIR* International Insurance Seminar
# Pyongyang – DPRK – 7th – 9th June 2010




Lindsey

# *"The Art of Adjusting Catastrophe Claims"*

**Robert Dalton & Kevin Scott**

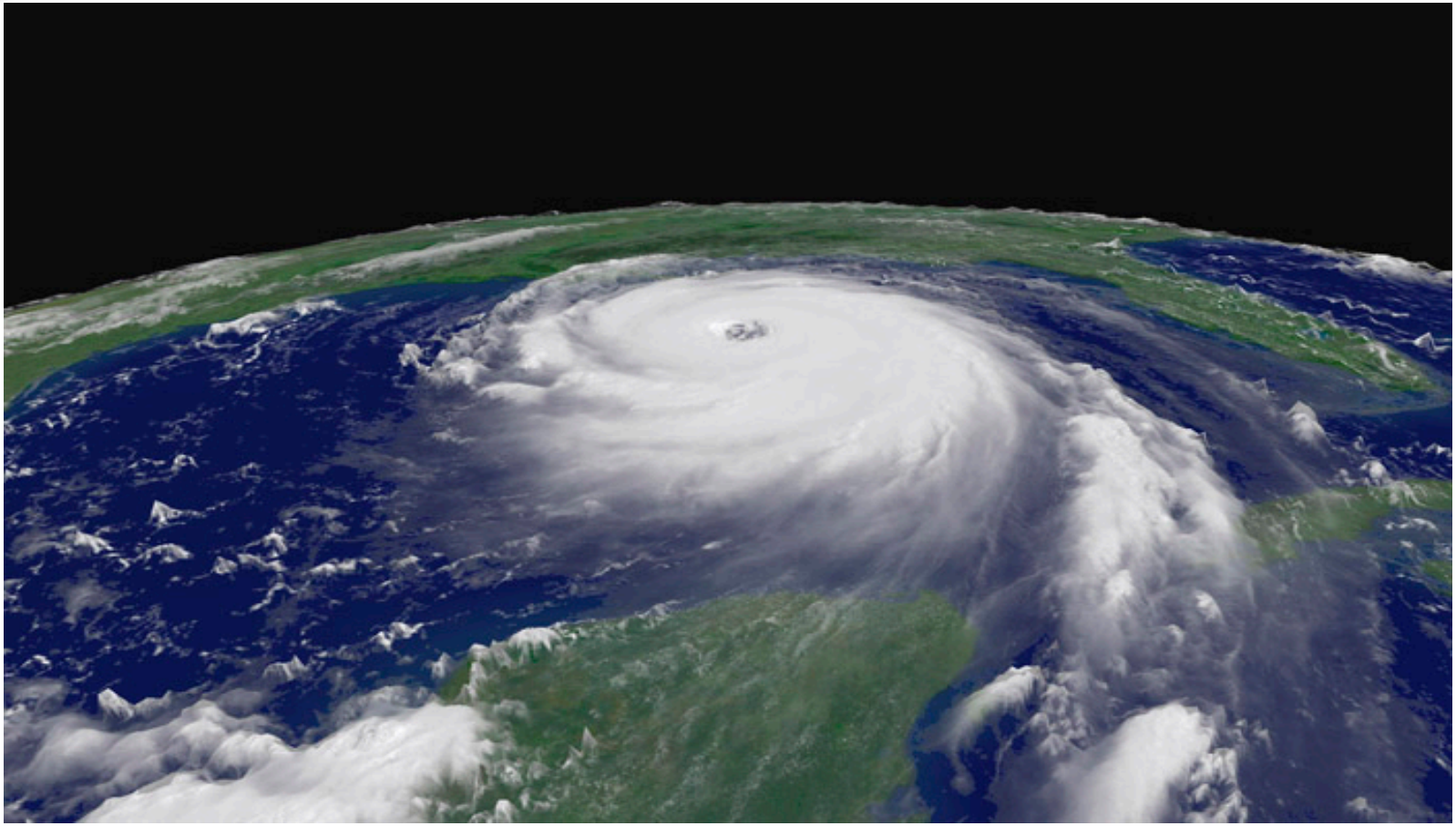
**Cunningham Lindsey International Ltd**

**London**



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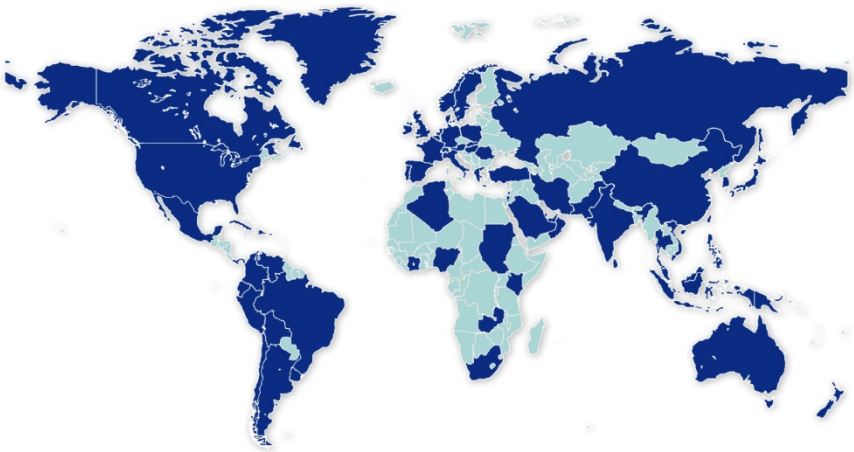
# Hurricane Katrina from Space



Cunningham Lindsey

# Cunningham Lindsey

## *Local solutions for global clients*



**KEY: Dark blue areas demonstrate our international coverage**

Cunningham Lindsey's network of offices span:
62 countries, over 600 branch offices with 6,800 staff worldwide

| International Coverage - by country | | |
|---|---|---|
| Argentina | India | Poland |
| Australia | Indonesia | Qatar |
| Austria | Ireland | Romania |
| Bahamas | Israel | Russia |
| Bahrain | Italy | Saudi Arabia |
| Belgium | Ivory Coast | Singapore |
| Bolivia | Japan | Slovakia |
| Brazil | Kenya | South Africa |
| Canada | Korea | Spain |
| Chile | Kuwait | Sweden |
| China | Malaysia | Taiwan |
| Colombia | Mexico | Thailand |
| Cyprus | Netherlands | Trinidad |
| Denmark | Netherlands Antilles | Turkey |
| Dominican Republic | New Zealand | United Arab Emirates |
| France | Nigeria | United Kingdom |
| Germany | Oman | United States |
| Greece | Pakistan | Venezuela |
| Guam | Papua New Guinea | Vietnam |
| Hong Kong | Peru | Zambia |
| Hungary | Philippines | |

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# Chile – 27th February 2010



Cunningham Lindsey

# Chile – 27th February 2010



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# We will address…

- Different Types of Catastrophe
- Pre-Catastrophe Planning
- Post-Catastrophe Actions



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# Types of Catastrophe

Windstorm -
*Hurricane/Typhoon/Cyclone*

Flooding

Earthquake/Tsunami

Terrorism



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# Industry Pre-Catastrophe Planning

- Monitoring of Weather Systems - NOAA
- Claims Department Liaising with Underwriters
- Cedant and Reinsurer Discussions and Agreement on Claims Handling
- Claims Philosophy – Reinstatement vs. ACV
- Insurer/Broker Discussions



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# Adjusters' Pre-Catastrophe Planning

Nominations

Personnel

Local Agents

Resource Availability:

- Accommodation
- Office Space
- Communications/IT
- Transport
- Cash

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# Typical Adjusters' Support Team

- Engineers
- Surveyors
- Accounting Consultants
- Industry Specialists



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# Problems & Solutions - Administrative

- Support of Head/Regional Office
- Obtain Staff from World-Wide Network
- Daily Liaison with Appropriate Insurers/Reinsurers
- Agreed Reporting Procedures/Formats
- Information Flow – Spreadsheets
- Review of VAR's
- First & Final Reports
- Quality Control/Integrity
- Preparation for Auditors



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# Problems & Solutions - Practical

- Access
- Communication
- Power
- Accommodation
- Food, Water, Sanitation etc.
- Offices & Equipment
- Transportation
- Experienced Management Personnel
- Morning Meetings and Morale
- Knowing Limitations
- Finding Claimants!

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# Management Organisation & Tools

- Calculate Likely Case Load
- Obtain On-The-Spot Reports of Damage
- Confirm Chain of Reporting/Communication
- Start Deployment of Adjusters
- 24/7 Availability
- Electronic Communication



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# Initial Measures

- Pressure from Cedants/Reinsurers for Reserves
- Team Organisation
- Publicise Office Location/Contact Numbers
- Work Permits/Govt. & Regulator Liaison
- Translators
- Emotional Understanding



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# Different CATS = Different Problems

- Bermuda/Cayman/Grenada – Remote Islands & Highly Regulated
- Security Issues Due To Emergency
- NYC  9.11/Katrina – Politically Charged
- Language
- Distances – Kobe Earthquake/Katrina
- Local Practices – Chile Earthquake



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# Czech Floods - 2002



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# Czech Floods - 2002



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# Czech Floods - 2002



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# Boxing Day Tsunami - 2004



Lindsey

# Boxing Day Tsunami - 2004



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# Hurricane Ivan – Grand Cayman 2004




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# Future Catastrophes?

Three Witches:

*Yes!*

Macbeth:

*Is it true you can foretell the future?*

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# Future Catastrophes?

| | |
|---|---|
| Tsunamis : | Las Palmas |
| | Hawaii |
| Earthquakes: | Tokyo |
| | California |
| | Istanbul |
| Volcanoes: | Decade Volcanoes (16) |
| Hurricanes: | Caribbean |
| | East Asia |
| | Indian Ocean |
| Climate Change: | Anywhere! |

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# The Thames Barrier – London 1984




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# The Thames Barrier – London 1984



# Conclusions

- You Can't Plan and Prepare Too Much
- Pre-Agreed Strategies and Appointments are Highly Desirable
- Experience is Vital
- Communication is Paramount
- Trust is Essential
- Professionalism is Key



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# Questions



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# CONTROLLING PIRACY RISK PROBLEMS

## Role of International Community, Governments and Ship-owners

Presented by:

V.A. Tommy, ICWA(I); CAIIB; FIII; FCII; MBA
Director,
Sun Reinsurance Brokers LLC, Dubai

# CONTENTS

- Piracy - Definitions and History
- Piracy – Rewards and Punishments
- Piracy in the Modern World
- Some Recent High Profile Piracies
- Piracy Prone Areas
- Motives for Pirates
- Piracy – Real Causes and Sufferers
- Solutions - How to Prevent Piracies?
- Constraints in Combating Piracy
- Conclusions/ Summary

# PIRACY – DEFINITION

- Piracy defined in layman's language

**Piracy** is a war-like act committed by private parties (not affiliated with any government) that engage in acts of robbery and/ or criminal violence at sea.

- Maritime piracy, according to the United National Convention on the Law of the Seas (UNCLOS) of 1982:

**criminal acts of violence, detention, rape, or depredation committed for private ends by the crew or the passengers of a private ship or aircraft that is directed on the high seas against another ship, aircraft, or against persons or property on board a ship or aircraft.**

# PIRACY – DEFINITION… Cont'd

- The International Maritime Bureau (IMB) defines piracy as:

  the act of boarding any vessel with an intent to commit theft or any other crime, and with an intent or capacity to use force in furtherance of that actMaritime piracy, according to the United National Convention on the Law of the Seas (UNCLOS) of 1982:

- **Modern Day Piracy includes:**

  **Boarding, Extortion, Hostage taking, Kidnapping of people for ransom, Murder, Robbery, Seizure of items or the ship and Shipwrecking done intentionally to a ship**

# PIRACY – SOME HISTORY

- Piracy existed for as long as Oceans were plied for commerce;
- **As early as 13th century BC 'Sea Peoples' had threatened Aegean and Mediterranean;**
- 3rd Century BC witnessed Pirate Attacks on Olympus City which impoverished it;
- **1st Century BC saw Pirate States along the Anatolian Coast and threatening Roman Empire;**
- **Even Julius Caesar was once kidnapped from Sea;**
- **Medieval Europe is full of raiding and Piracy activities of Vikings;**
- **As early as Byzantine times, the Maniots - one of Greece's toughest populations - were known as pirates.**

# PIRACY – SOME HISTORY… Cont'd

- Instances of Piracy are recorded in the Vedas;
- **During 16th and 17th Centuries, there were frequent European Piracy against Mughal Indian Vessels;**
- **At one stage Pirate population of Madagascar numbered more than 1000;**
- **During the medieval times, Chinese Pirates are reported to have ruled the roost in the SE Asia;**
- **Pirates were operating all over the world:**

  On the Indian Coast;

  In East Asia;

  In Eastern Europe;

  In North Africa;

  In the Caribbean.

# PIRACY – REWARDS AND PUNISHMENTS

- Pirates have a unique system of sharing rewards or booty;
- They had a system of ‘heirarchy’ on board the ship determining how captured loot was shared;
- An element of ‘democracy’ existed amongst the pirate crew;
- Both the Captain and the Quarter Master were elected by the Crew, who in turn appointed the Ship’s officers;
- The crew injured in the ‘battle’ were given compensation, akin to health/ life insurance;

# PIRACY – REWARDS AND PUNISHMENTS.. Cont'd

- Once caught by the Authorities, Pirates were given summary punishments;
- Many ended their lives by 'dancing the hempen jig' or hanging by the end of the rope;
- Public Execution was an entertainment at that time;
- For famous pirates – usually Captains – punishment extended beyond death; bodies were kept in iron cages and left to swing in the air until the flesh rotted off them
- No defence was allowed for Pirates;

# PIRACY IN THE MODERN WORLD

Here is the modern deadly reality of the world of pirates :

Year 2009:

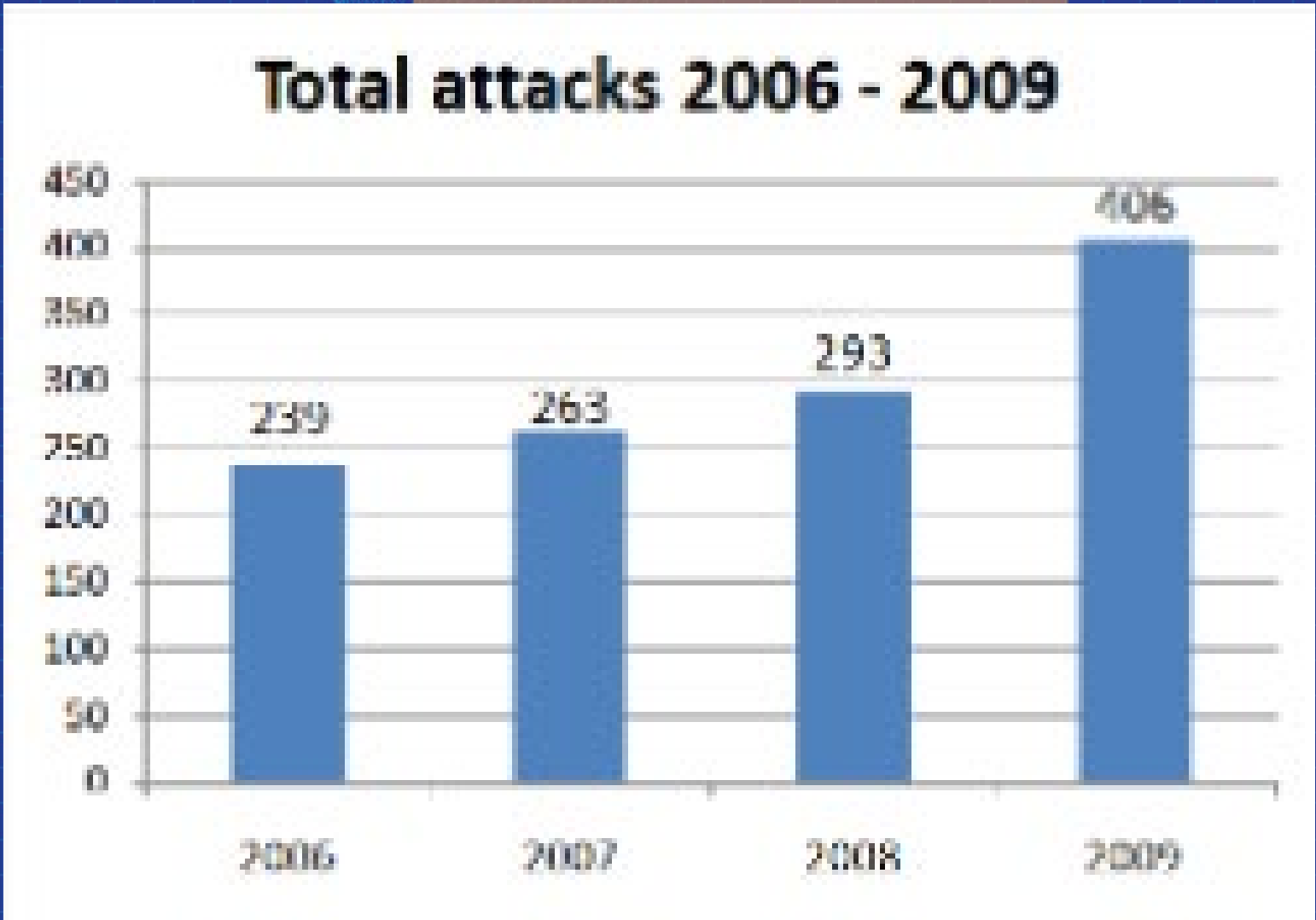
- 214 ships attacked;
- 153 ships boarded;
- 49 hijackings;
- 84 attempted attacks;
- 120 vessels fired up on;
- 1052 crew taken hostage; 68 injured and 8 killed;
- 35 released after taking ransom;
- 12 ships with 263 crew still held for ransom.

Year 2008:

- 111 ships attacked and 46 fired up on;
- 200% growth over year 2007

Source: ICC Crime Reporting Centre

# PIRACY IN THE MODERN WORLD.. Cont'd




Source: ICC – Crime Reporting Centre

# HIGH PROFILE PIRACIES OF 2008-09

Here is a list of high profile piracies in the recent past :

- April 2008: French luxury yacht Le Ponant carrying 30 crew hijacked by Somali Pirates;
- November 2008: MV Sirius, Saudi Super Tanker with USD 100 M crude hijacked by Somali Pirates;
- April 2009: MV Maersk Alabama, a 17,000-ton cargo ship hijacked by Somali Pirates;
- April 2009: 32 000-ton Malaspina Castle, hijacked by Somali Pirates;
- July 2009: Finnish-owned ship MV Arctic Sea, Maltese flag hijacked in Sweden waters;
- Dec, 2009: St James Park hijacked in Gulf of Aden;

Source: ICC Crime Reporting Centre

# PIRATE PRONE AREAS – 2009-10



# PIRATE PRONE AREAS – 2009-10.. Cont'd

Prominent Piracy Prone Areas include :

South East Asia and Indian Sub Continent

- Bangladesh : Chittagong anchorages and approaches;
- Indonesia : Anambas / Natuna / Mangkai islands area, Belawan;
- Malacca Straits;
- Malaysia : Off Tioman / Pulau Aur / South China Sea;
- Singapore Straits;
- South China Sea : vicinity of Anambas / Natuna islands;
- Vietnam : Vung TauSource;

Africa and Gulf of Aden:

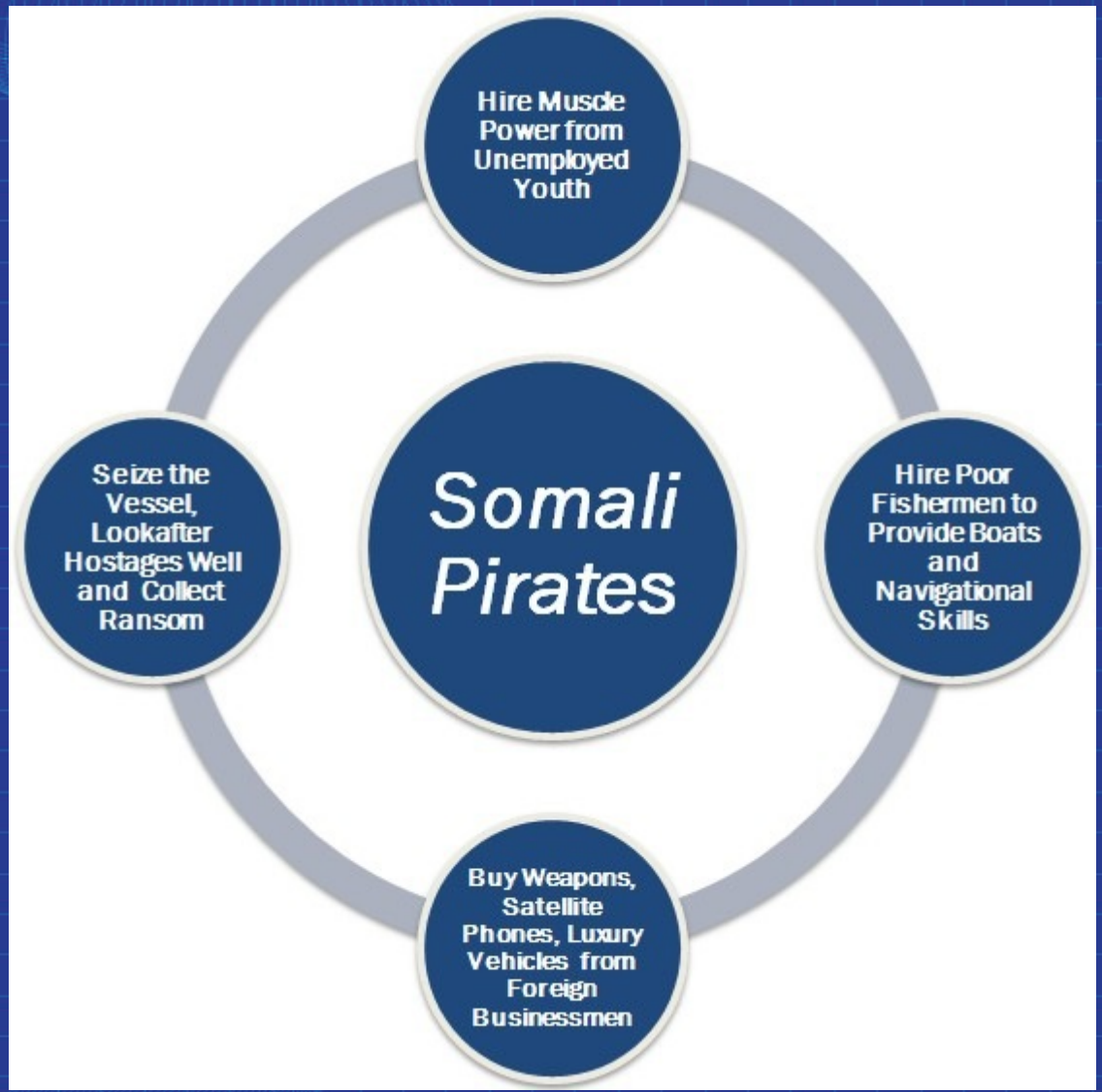
- Nigeria; Guinea; and Somalia

Source: ICC Crime Reporting Centre

# MOTIVES FOR PIRATES

- Easy Profits – Criminals of Opportunity;
  Best Way to become overnight millionaires!!
  These pirates search for easy preys
- Pirates working with organised crime syndicates:
  They attack with sophisticated planning;
  They steal large cargoes and kidnap crew for huge ransom;
- Pirates associated with Terrorist or Secessionist Groups:
  Best way to attract global attention;
  Easiest way to fund the terrorist activities

# MOTIVES FOR PIRATES – SOMALI PERSPECTIVE



# PIRACY – THE REAL CAUSES

- Think of Somalian Pirates – Is piracy a symptom overshadowing the real disease?

- What is the real disease of Somalia Piracy?

  **Collapse of the State, Lawlessness and Anarchy**

# PIRACY – THE REAL CAUSES.. Cont'd

What are the real causes of Somalia Piracy?

- 20 years of conflict leading to total collapse of Police, Judiciary and Governmental systems;
- 21% of the population suffering from malnutrition;
- Millions have no access to health care;
- 2 Million people displaced from their homes;
- 1.3 Million needing emergency food assistance;
- Country governed by Militias and Warlords annexing different regions/ territories;

AND FLOURISHING SHIP MOVEMENTS ACROSS THE COAST!!!

BETTER TO JOIN PIRATES AND DIE THAN TO DIE FROM HUNGER AND SHAME!!!!

# PIRATE ATTACKS – WHO SUFFERS?

Direct Costs of Piracy

- Typical booty include: ship's stores, engine parts, valuable cargo, cash and personal property;

**Cargo/ Ship owners suffer**

- Loss of Human Life – Death and Disability

**Dependents of Crew suffer**

**Ultimate Financial Loss is often suffered by the marine underwriters!!**

# PIRATE ATTACKS – WHO SUFFERS?... Cont'd

Indirect Costs of Piracy

- Additional Expenses incurred on Extra Security measures;
- Increased insurance premium;

Cargo and Ship owners suffer from the increased economic burden;

Trade through affected areas get costly

- Inability to find insurance capacity; Extreme cases will lead insurers to exclude piracy altogether;

Trade and Commerce get affected

# PIRATE ATTACKS – WHO SUFFERS?.. Cont'd

## Political Costs of Piracy

- Undermines the stability and development of the affected region
- The governments of the affected region become weak;
- Leads to international intervention in the affected region and Governmental affairs;
- Not healthy for the region's long term development.

# PIRATE ATTACKS – WHO SUFFERS?... Cont'd

- An act of Piracy affects important international interests;
- Piracy puts at risk the lives of innocent people (crew) who happen to be in the wrong place at the wrong time;
- Piracy is a crime against humanity;
- There is no gainer in Piracy – every one is a loser including the Pirates – they cannot be at large always, the law will finally catch them.

# SOLUTIONS – HOW TO PREVENT PIRACIES?

1. International Resolve – to work together:
   - Treat the cause not the symptoms;
   - Fix the Somali pirate problem at source, by fixing the anarchy of Somalia;
2. Multi National and Coordinated Patrolling:
   - Continue with the practice of International ships equipped with helicopters patrolling affected areas;
   - Naval Vessels from mighty nations can patrol the affected areas;
   - Use robotic or remote controlled UAVs and USVs in the dangerous waters;

# SOLUTIONS – HOW TO PREVENT PIRACIES?.. Cont'd

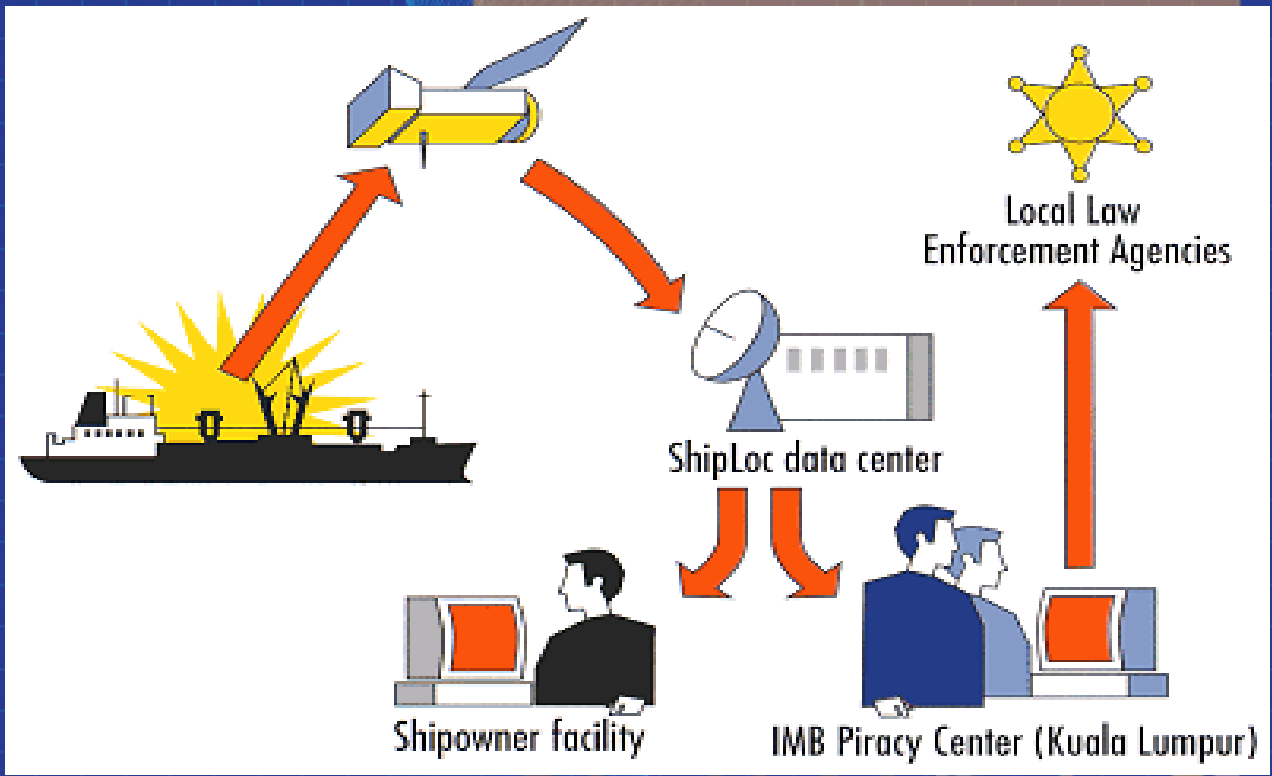
3. Self Protection and Preventive Measures:

- Avoid Pirates;
- Arm the ships – let Governments amend their existing regulations to make this feasible

(Currently many governments including the ones of UK and USA ban arming of merchant vessels to prevent creation of 'Wild Wild West at Sea'

- Train the Crew;
- Usage of Remote Weapons Systems;
- Implementation of High Free Wall;
- Access to Emergency Assistance;
- Installation of high tech "Shiploc" which uses a hidden personal computer aboard ship to monitor position by satellite 24 hours a day

# SOLUTIONS – HOW TO PREVENT PIRACIES?.. Cont'd




Shiploc System – source Shiploc website

# SOLUTIONS – HOW TO PREVENT PIRACIES?. Cont'd

4. International Acquisition of Lawless Waters:
   - Let Private Sector take over the security of pirate affected waters;
5. Use of Hi Tech Equipments and Safety/ Warning Measures;
6. International Tribunals or Jurisdictions:
7. Holistic Approach and Sustainable Solutions:
   - Attack the Root cause; Do not treat the disease alone
8. Campaign Against Piracy

# CONSTRAINTS IN COMBATTING PIRACY… Cont'd

- **Legal Constraints:**

  **1. The laws of a country allow it to prosecute it's own citizens, not that of others; pirates are usually foreigners;**

  **2. Prosecutions are rare;**

  **3. Better to release the pirates than take the burden of imprisoning them.**

- **Economic Ills and Political Instability;**

  **When you do not have any gainful employment, piracy is a good job!!**

- **Political Resistance and Terrorist Activities:**

  **Established means to make the Governments bow/ surrender**

# CONCLUSIONS/ SUMMARY

- Piracy has existed ever since marine trade commenced; Frequency and Extent of Piracy is now alarming;
- Piracy in the Modern World is acquiring global standards;
- With USD 15 Billion estimated at stake, Piracy is evolving as a mega industry;
- Motives for Pirates are Easy Money, Employment with Organised Syndicates and Terrorist or Fundamentalist oriented Goals;
- At times, pirates motives get into a vicious cycle;

# CONCLUSIONS/ SUMMARY… Cont'd

- Root Causes of Piracy are often linked to total collapse of the Government Machinery in the countries bordering major Sea Routes;
- There are direct and indirect costs of Piracy besides leading to political instability of the affected countries;
- Business and Economy suffers immensely; at times human tragedies also take place;
- International Resolve coupled with radical remedial measures are essential to combat piracy;
- Legal Constraints, Economic Ills and Political Instability continue to hamper the fight against piracy.


Thank You!

Continental Insurance Brokers

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CONTINENTAL INSURANCE BROKERS LIMITED

# Federation of Afro-Asian Insurers and Reinsurers

# Pyongyang International Insurance Seminar 2010

## Country Presentation
## China

# Continental Insurance Brokers Limited



**Xun DAI**
**Chairman**



**Alan Yong ZHANG**
**Managing Director**

# Continental Insurance Brokers Limited

- Insurance Broker - China
  - Direct and Reinsurance
- Shareholders
  - Independent and private
- Staff
  - 80 as at 30 April 2010
- National Ranking – 31 Dec 2009
  - No 15 out of 378 brokers
  - No 1 in RI broking



# CIB Offices

- Head Office
- Branch
- Branch (being established)
- Technical Support





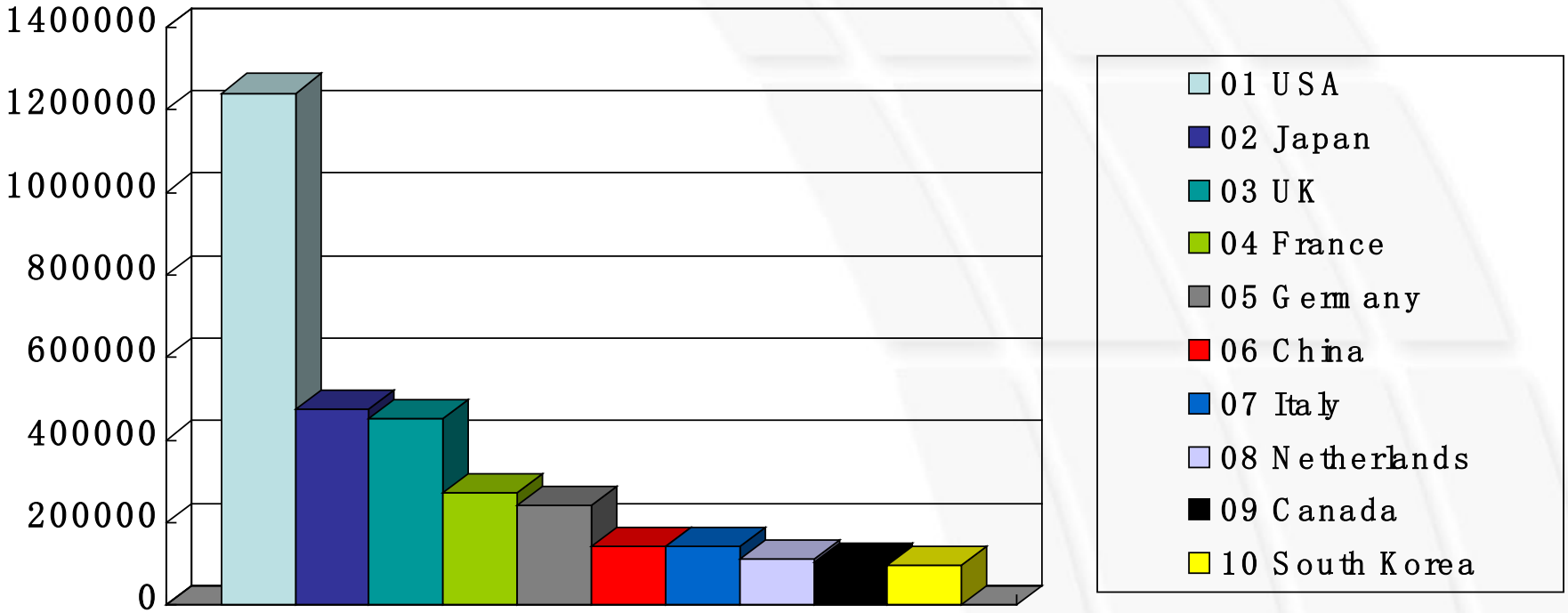

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# China Insurance Market

- How large is the China Insurance Market?
- What are the premiums for life and non-life insurance markets of China?
- What is the future of the China Insurance Market?

# World Insurance Market 2008

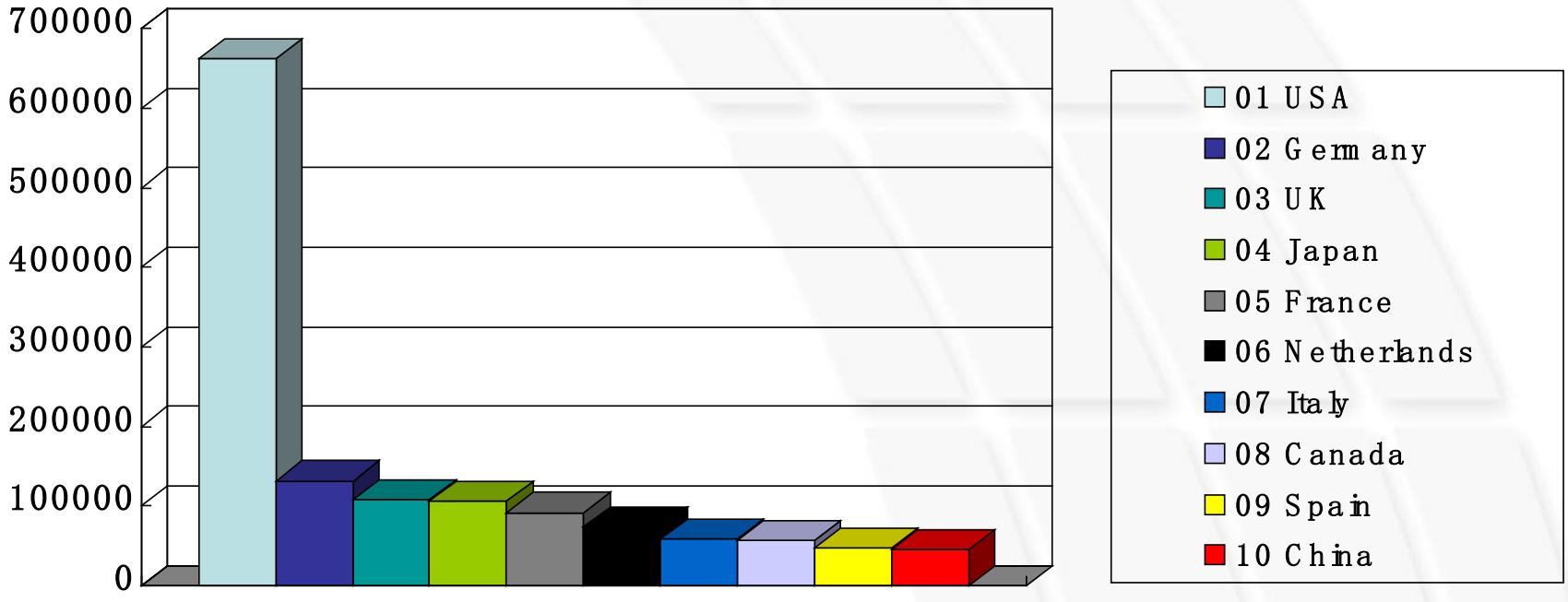
## Total Premiums (USD Million)




*Sources: Sigma*

# World Insurance Market 2008

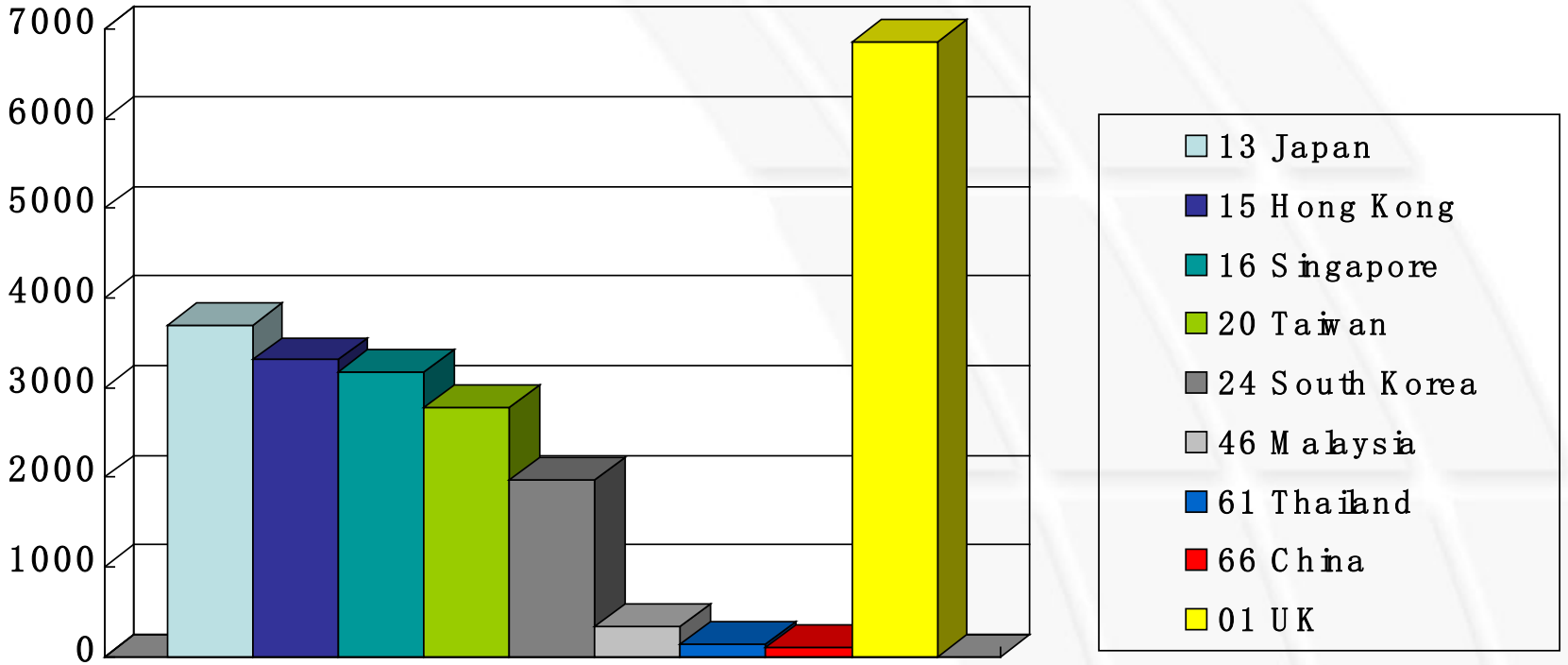
## Non-life Premiums (USD Million)




*Sources: Sigma*

# Asia Insurance Density 2008

## Total Premiums per capita (USD)

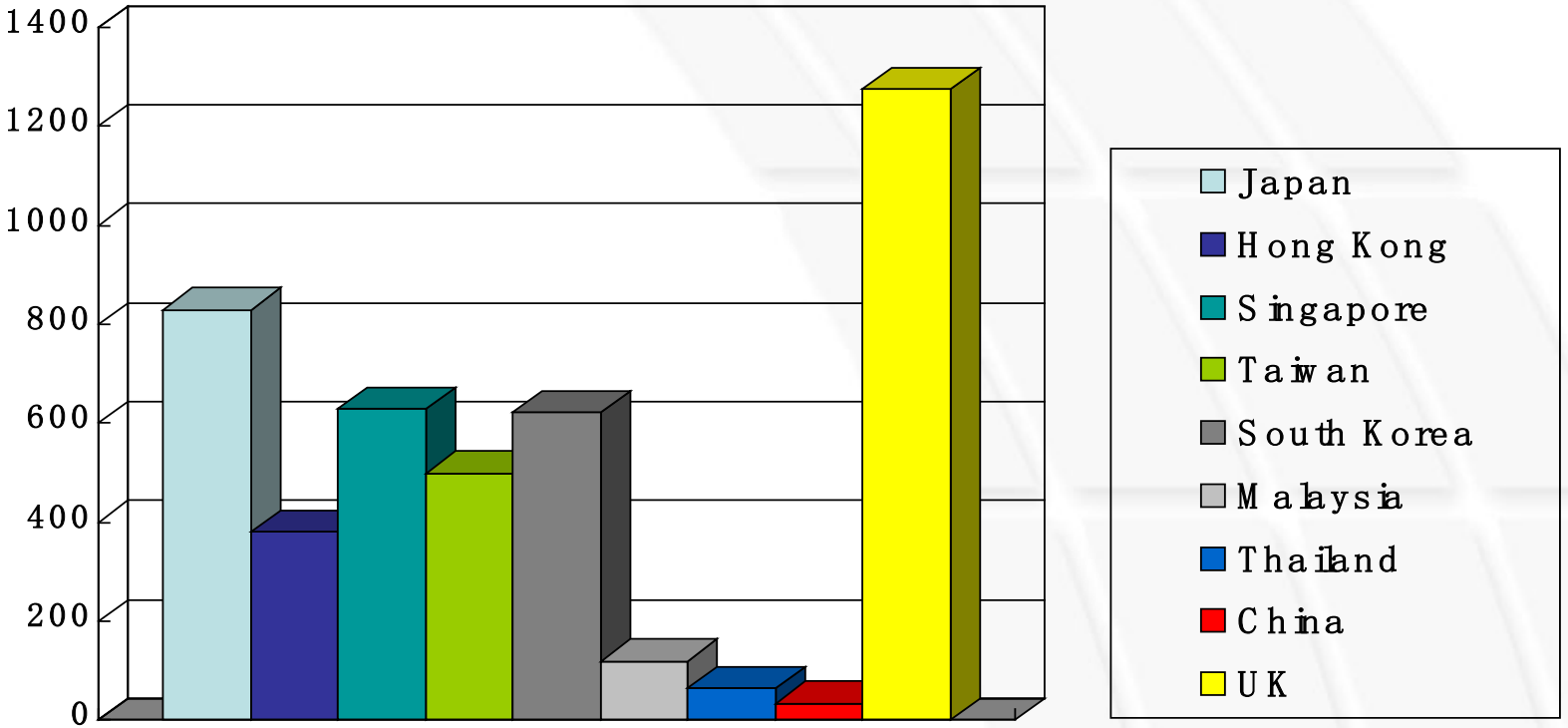



** UK – Highest in the World*

*Sources: Sigma*

# Asia Insurance Density 2008

## Non-life Premiums per capita (USD)



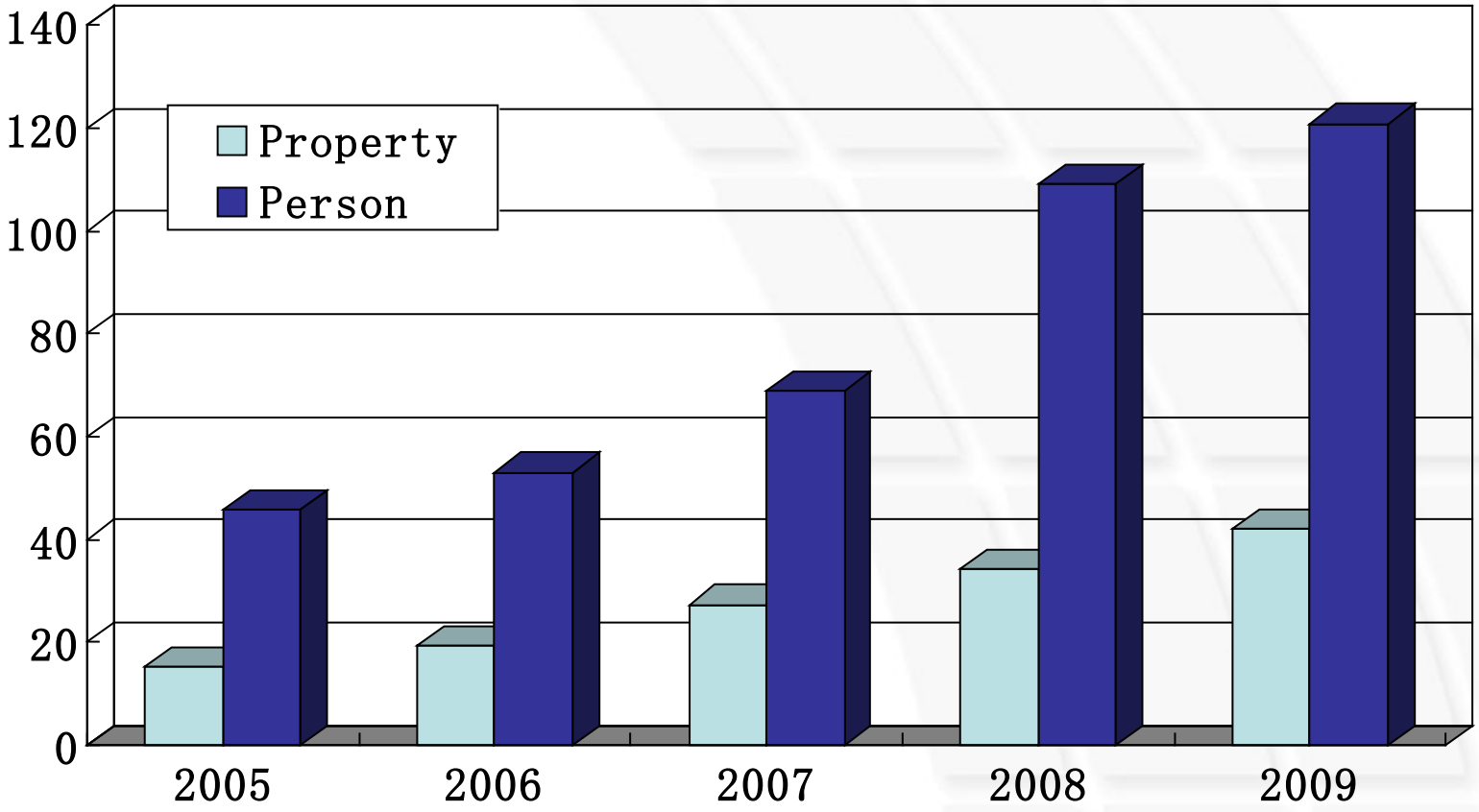

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# China Insurance Premiums 2005 - 2009 (USD Billion)

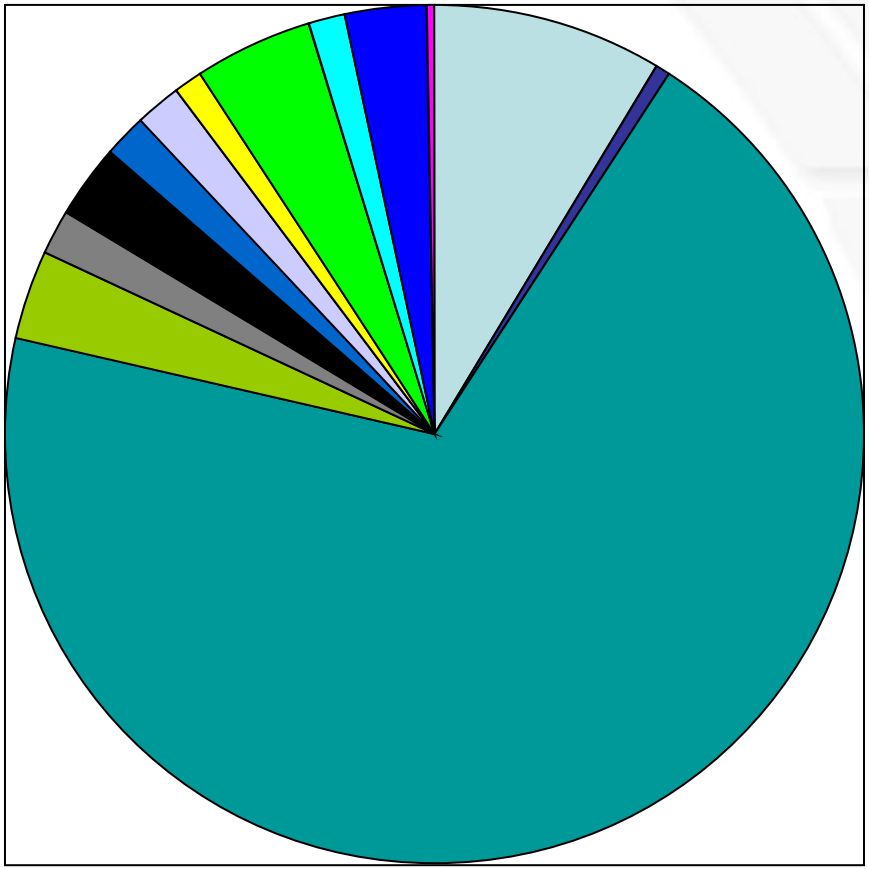



*Sources: CIRC*



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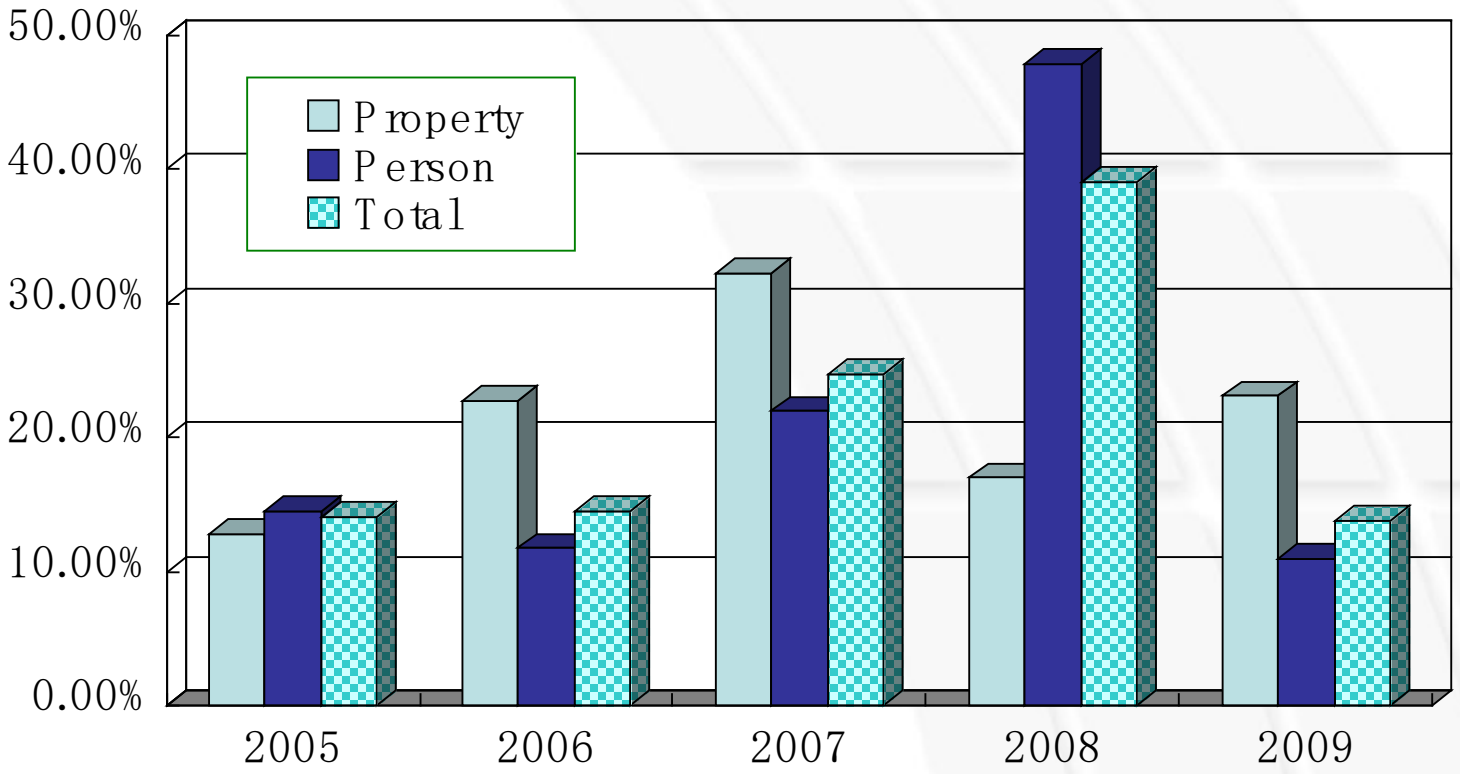
# Non-life Insurance Premiums by Lines 2008



- 8.59% CommercialProperty
- 0.53% ResidentialProperty
- 69.48% Motor
- 3.34% Liability
- 1.66% CEAR
- 2.90% Cargo
- 1.59% Marine Hull
- 1.50% Credit
- 0.22% Bonds
- 1.14% SpecialRisks
- 4.42% Agriculture
- 1.39% Health
- 3.07% PersonalAccident
- 0.17% Others

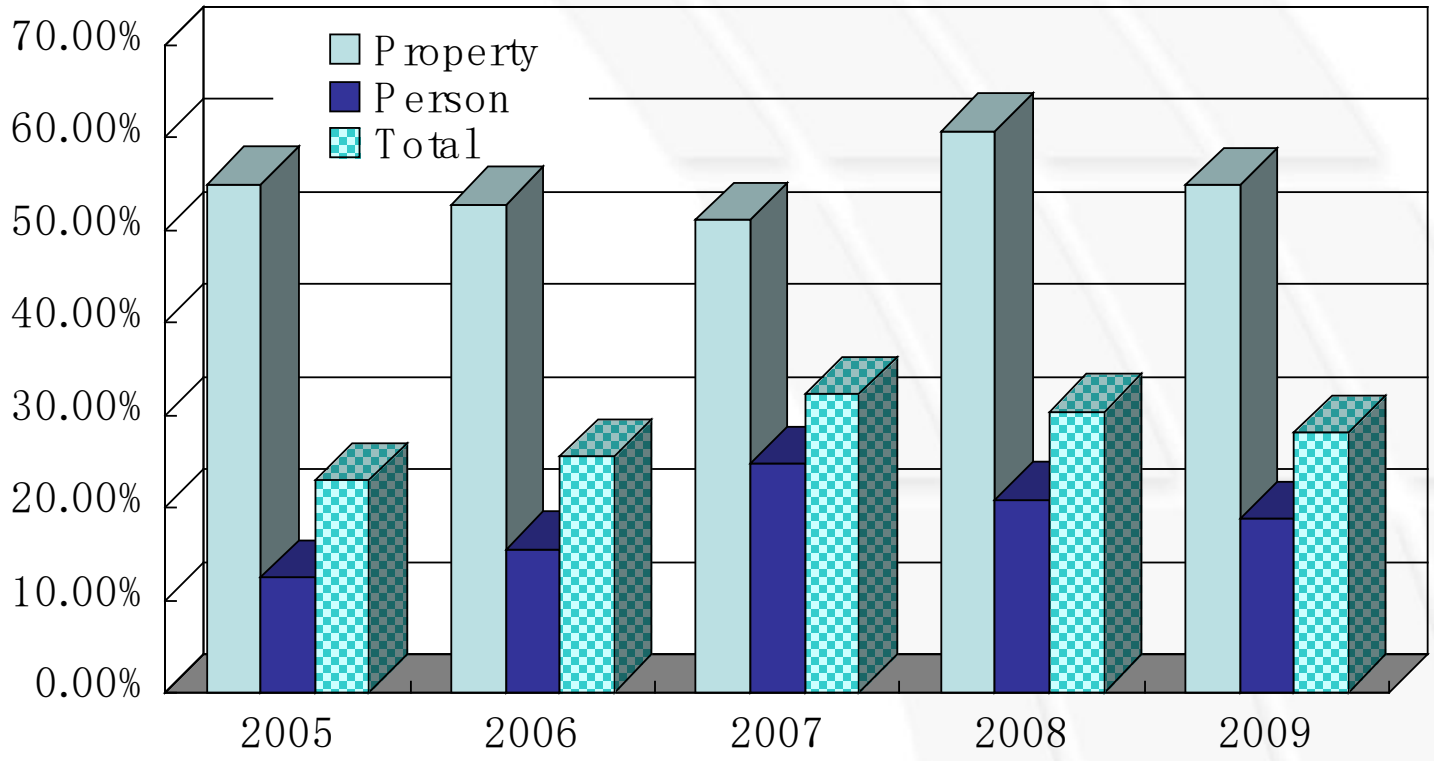
*Sources: 2009 Yearbook of China's Insurance*

# Premium Increase Ratios



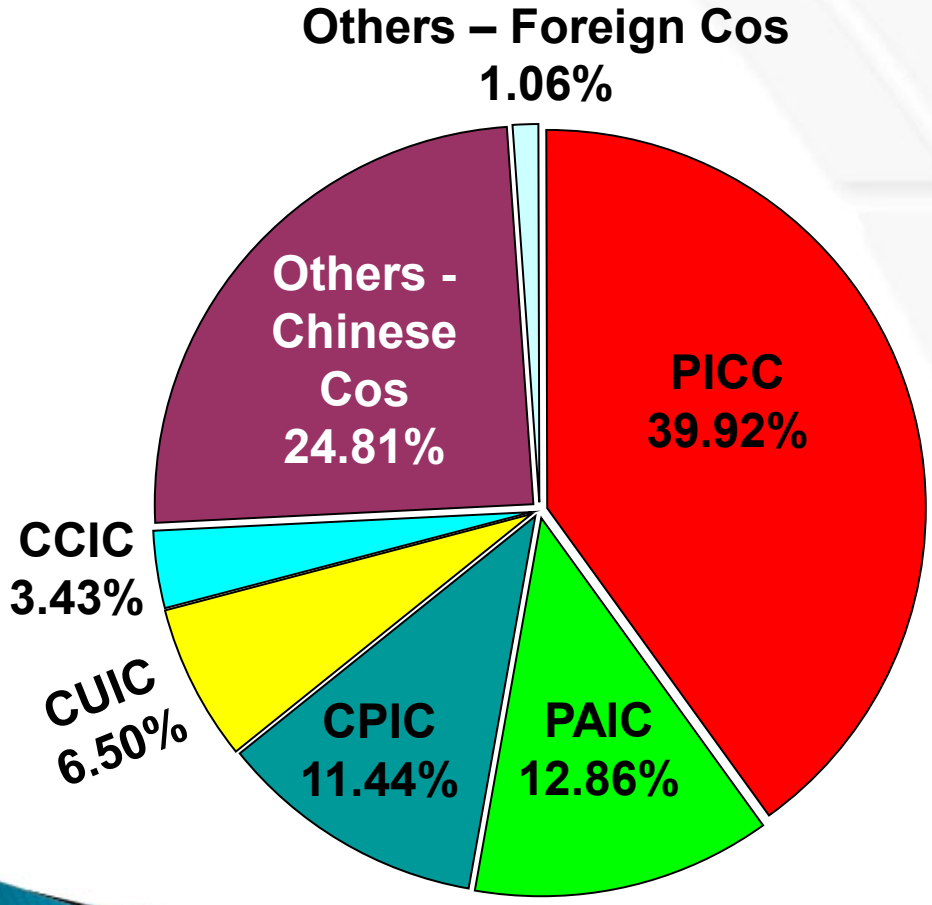

*Sources: CIRC*

# Claims Ratios




*Sources: CIRC*

# Non-life Insurance Market Shares as at 31 December 2009




- Insurance Companies
  - 52
- Chinese Companies
  - 34
- Foreign Companies
  - 18

*Sources: CIRC*

# China as a RI Market

- **China Reinsurance Group**
  - Paid-up Capital – USD 4.82 billion (at 2007 exchange rate)
  - Expected to be rated and listed soon
- **PICC Property & Casualty**
  - **Rated A1 by Moody's**
  - Listed in Hong Kong
  - Prominent Shareholder – AIG
- **Ping An Insurance Company**
  - Listed in Hong Kong and Shanghai
  - Prominent shareholder – HSBC Group
- **China Pacific Insurance Company**
  - Listed in Shanghai

# China as a RI Market

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  - Listed in Shanghai
- **Appetites**
  - **China related**
  - CEAR and Engineering
  - Energy
  - Property
  - Marine Hull (selective)
  - Marine Cargo
- **Not interested**
  - **US liability**
  - **Long-tail risks**

# Overseas Business of Chinese Enterprises and Contractors

- Chinese Enterprises
  - Overseas acquisitions
  - Overseas operations
- Chinese Contractors
  - Overseas contracting in Africa, Americas (Central, North and South), Asia, Australia, Middle East
- China Insurance Market
  - Very supportive

# Future of China Insurance Market

- 2010 – 2015
  - Should be at least as good as 2005 – 2009
- By 2050
  - A growth market for the next 40 years!
- Rationales
  - IMF's GDP Projections
    - China's GDP nearly twice of USA's by 2050
  - China insurance expenditure per capita
    - 2008
      - Life – USD 71.70
      - Non-life – USD 33.70

# IMF's GDP Projections

| [USD Billion] | 2010 | 2020 | 2030 | 2040 | 2050 |
|---|---|---|---|---|---|
| USA | 14,535 | 17,978 | 22,817 | 29,823 | 38,514 |
| Japan | 4,604 | 5,224 | 5,814 | 6,042 | 6,677 |
| Germany | 3,083 | 3,519 | 3,761 | 4,388 | 5,024 |
| **China** | **4,667** | **12,630** | **25,610** | **45,022** | **70,710** |
| UK | 2,546 | 3,101 | 3,595 | 4,344 | 5,133 |

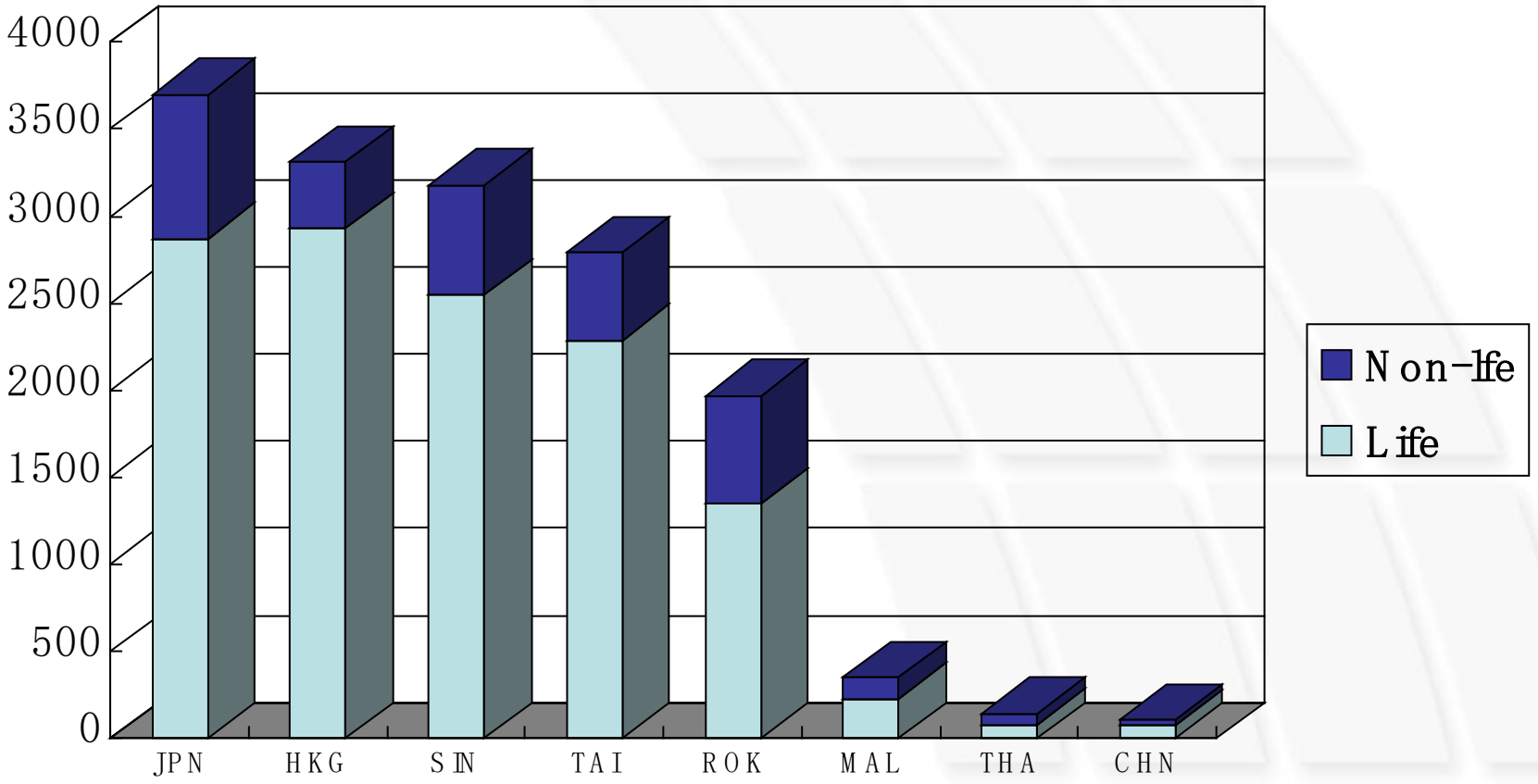
*Sources: IMF, World Economic Outlook Database, October 2009*

# Asia Insurance Expenditure 2008

| (USD per capita) | Total | Life | Non-life |
|---|---|---|---|
| Japan | 3,698.6 | 2,869.5 | 829.2 |
| Hong Kong | 3,310.3 | 2,929.6 | 380.8 |
| Singapore | 3,179.0 | 2,549.0 | 630.0 |
| Taiwan | 2,787.6 | 2,288.1 | 499.6 |
| South Korea | 1,968.7 | 1,347.7 | 621.0 |
| Malaysia | 345.4 | 225.9 | 119.5 |
| Thailand | 142.1 | 77.2 | 64.9 |
| **China** | **105.4** | **71.7** | **33.7** |

*Sources: Sigma*

# Insurance Expenditure 2008 (USD per capita)

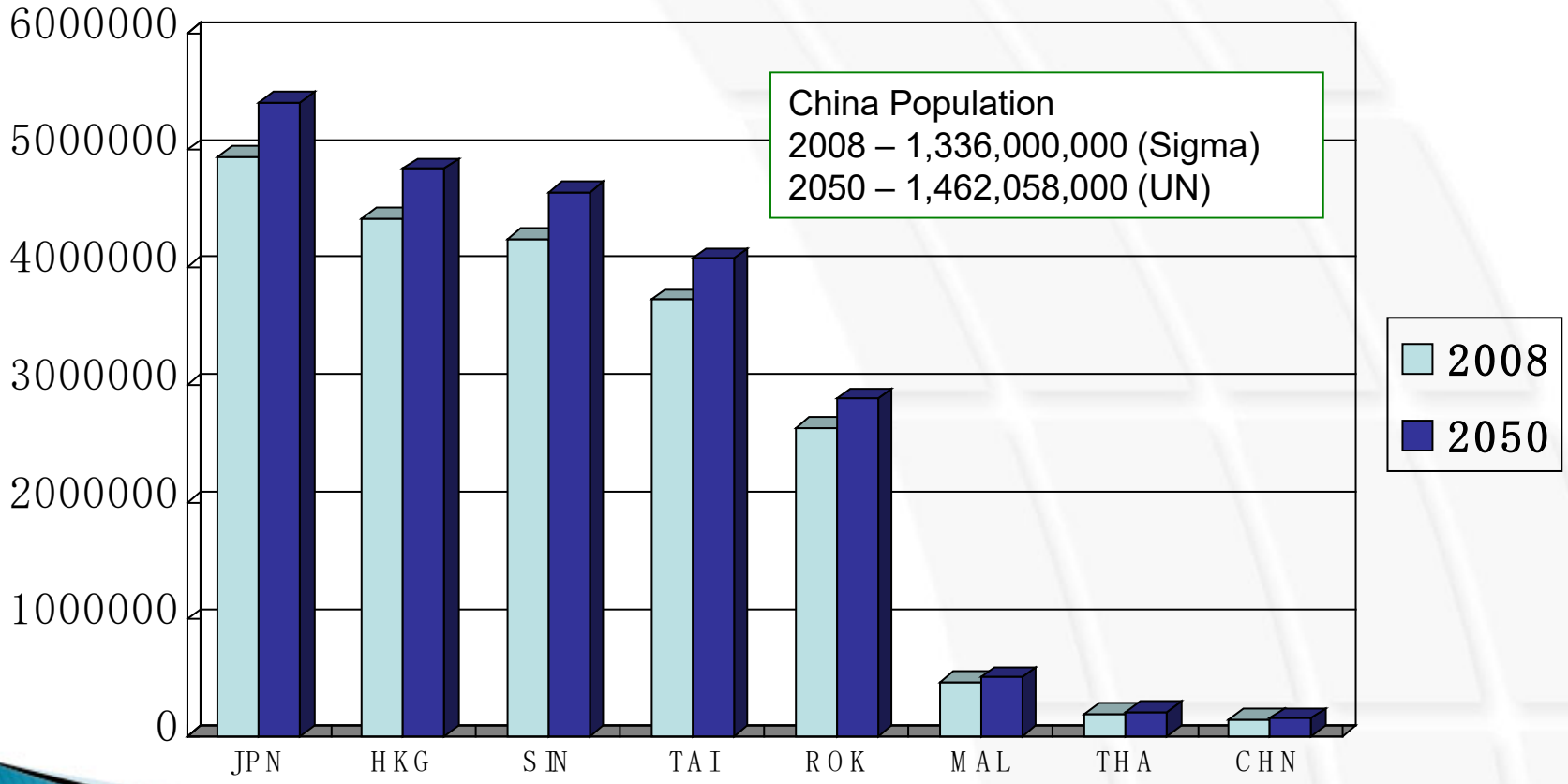



*Sources: Sigma*



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# China's Estimated Total Insurance Expenditure (USD Million)

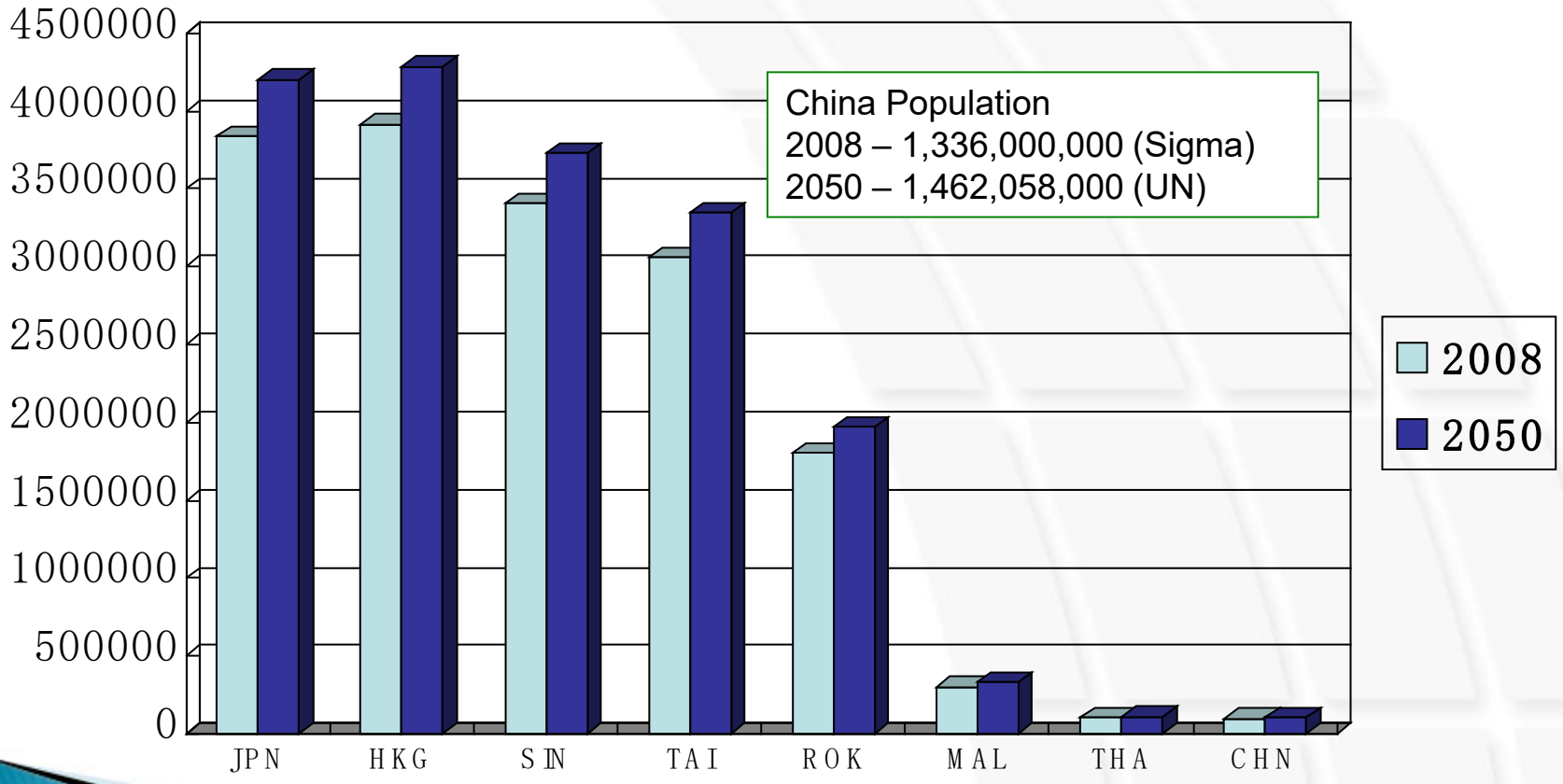



Using 2008 Per Capita Expenditure of These Countries and Territories




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# China's Estimated Total Life Insurance Expenditure (USD Million)

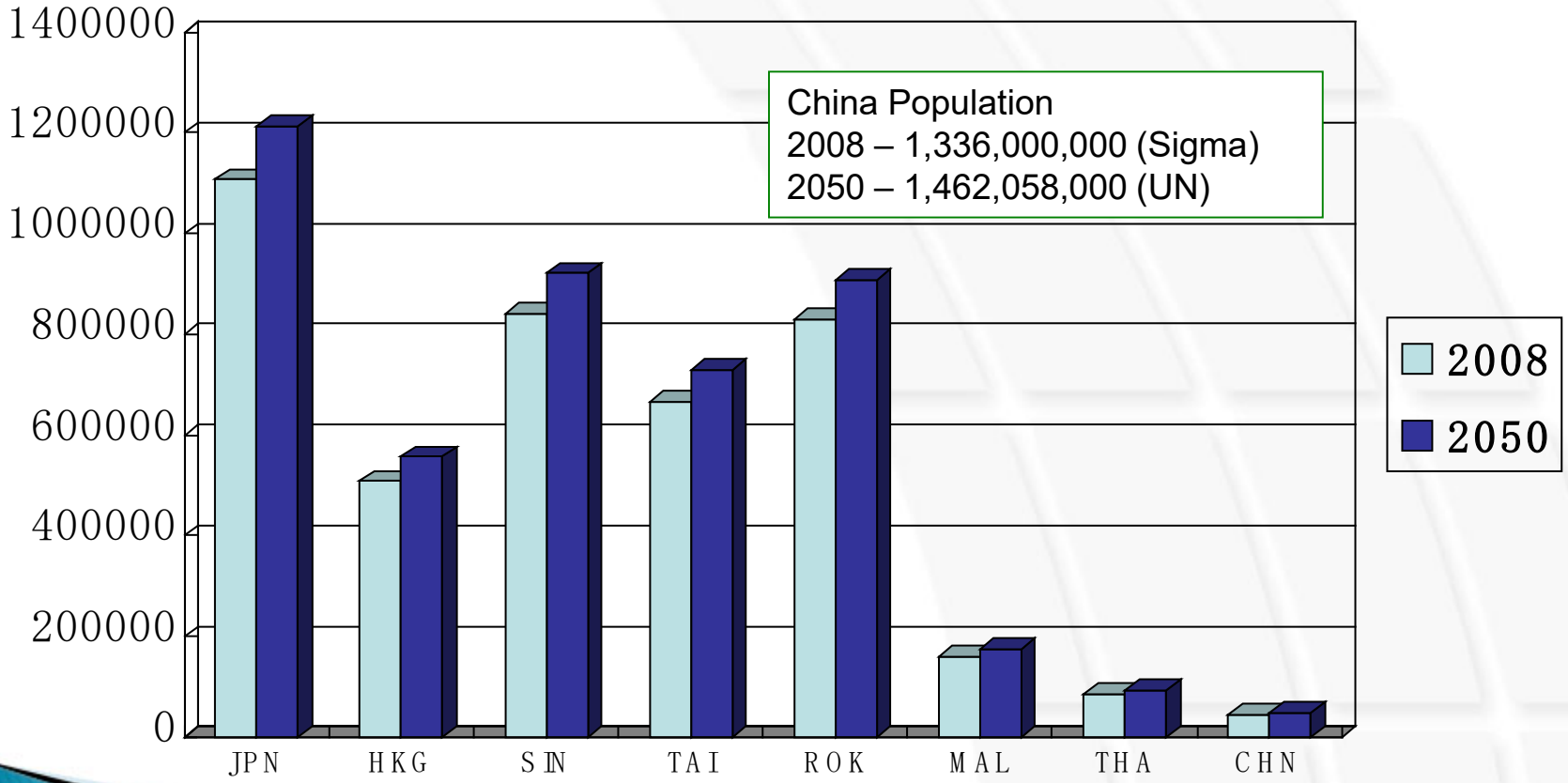



Using 2008 Per Capita Expenditure of These Countries and Territories




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# China's Estimated Total Non- Life Insurance Expenditure (USD Million)




Using 2008 Per Capita Expenditure of These Countries and Territories




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# Thank you



# Questions and Answers



五洲(北京)保险经纪有限公司
CONTINENTAL INSURANCE BROKERS LIMITED

Room 1704-05A, Office Tower E2 Oriental Plaza
No 1 East Chang An Avenue
Beijing 100738 China
Telephone: +86-10-8518 8766
Facsimile: +86-10-8518 8757
E-mail: alanzy@chinacib.com (Alan Yong ZHANG)
international@chinacib.com
www.chinacib.com

# New Trends in the Reinsurance Market

Judith Perkins
Elborne Mitchell

Pyongyang – June 2010

# History of the London Reinsurance Market

- Royal Exchange and London Assurance Corporation Act 1719

- Lloyd's

# Lloyd's in 2010



Lloyds of London

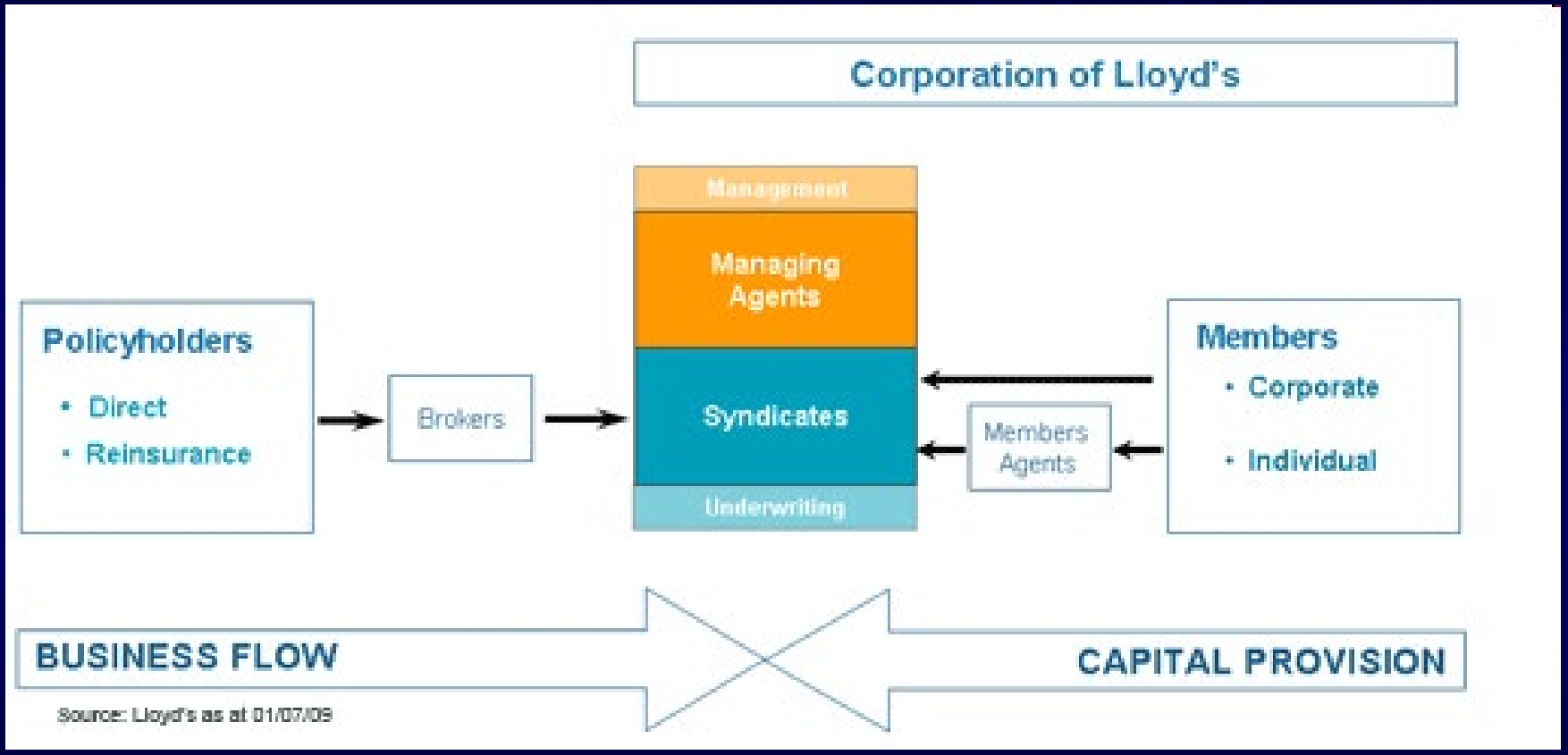
Elborne Mitchell

www.elbornes.com

# Lloyd's in 1688



# The Lloyd's Structure



# Marine Insurance Act 1906

**Section 9(1)**

*"The insurer under a contract of marine insurance has an insurable interest in his risk and may reinsure in respect of it."*

# Follow the Settlements

*"Being a reinsurance of and warranted same gross rate terms and considerations as, and to follow the settlements of, [the reinsured]"*

To establish liability under a standard follow the settlements clause:

- Reinsured has acted honestly
- Reinsured has taken all proper and businesslike steps in settling the claim
- The claim falls within the terms of the reinsurance contract as a matter of law

# *Double Proviso* Follow the Settlements

*"All loss settlements made by the reinsured, including compromise settlements, shall be unconditionally binding upon reinsurers provided such settlements are within the conditions of the* ***original policies*** *and/or contracts and within the terms of* ***this reinsurance****"*

Claims settled must fall within the terms of:

1. The direct policy; and
2. The reinsurance contract

# Equitas v R&Q Reinsurance Company

Standard of proof = the balance of probabilities

Method of proof = enables sufficient conclusions to be drawn as to whether the reinsured has met the standard of proof

# IRB v CX Re

*"It simply cannot have been intended by the parties to a reinsurance contract (containing the double provisos) that the "provided such settlements are within the conditions of the original policies and/or contracts" language meant that the Reinsured had to prove to an absolute standard that the underlying policy would respond to the claim or claims at issue. Such an interpretation would undermine a reasonable interpretation of the follow the settlements clause when read as a whole in the context of the reinsurance agreement."*

# Claims Control Clauses

*"Notwithstanding anything herein contained to the contrary, it is a condition precedent to any liability under this Policy that:*

*(a) the Reinsured shall, upon knowledge of any loss or losses which may give rise to a claim under this Policy, advise the Reinsurers thereof within 72 hours;*

*(b) the Reinsured shall furnish the Reinsurers with all information available respecting such loss or losses, and the Reinsurers shall have the right to appoint adjusters, assessors and/or surveyors and to control all negotiations, adjustments and settlements in connection with such loss or losses."*

# Eagle Star v Cresswell

- *"The underwriters hereon shall control the negotiations and settlement of any claims under this Policy. In this event the underwriters hereon will not be liable to pay any claim not controlled as set out above."*
- Did the follow the settlements clause trump the claims control clause?
- No – claims control clause condition precedent to liability.

# Law and Jurisdiction

- *Lexington v Wasa*
  - Competing jurisdictions between insurance and reinsurance contracts. Which applies?
  - Terms of reinsurance interpreted in accordance with the law set out in the reinsurance contract.
  - Reinsurers should have certainty.

# Arbitration Clauses

- *IRB v CX Re*
- London Court of International Arbitration:
  - *"Any dispute arising out of or in connection with this contract, including any question regarding its existence, validity or termination, shall be referred to and finally resolved by arbitration under the LCIA Rules, which Rules are deemed to be incorporated by reference into this clause.*
  - *The number of arbitrators shall be [one/three].*
  - *The seat, or legal place, of arbitration shall be London.*
  - *The language to be used in the arbitral proceedings shall be English.*
  - *The governing law of the contract shall be the substantive law of England and Wales."*
- Arbitration Act 1996

# Current Trends

- Legislation
- Solvency II Directive
- Regulation
- Risk Management

# New Trends in the Reinsurance Market

**Judith Perkins**
**Elborne Mitchell**

**Pyongyang – June 2010**

HAAKON

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# Alternative Reinsurance Products

- This presentation will deal with:
  - ✓ Financial Reinsurance
  - ✓ Alternative Risk Transfer
  - ✓ Latest developments

# Alternative Reinsurance Products

- The terms Financial Reinsurance and Alternative Risk Transfer are widely talked about amongst Reinsureds, Reinsurers and Brokers but in depth knowledge is „reserved" to specialists who developed knowhow to engineer an alternative reinsurance product suitable to find support in the financial sector.

- Risks covered are typically:

  - Florida hurricanes
  - Wind and hail in Germany
  - US Mid-West/South Earthquakes
  - Japanese Earthquakes
  - Earthquake in Tokyo area
  - Performance of the Company
  - Solvency requirements

# Alternative Reinsurance Products

- The costs of Alternative Reinsurance Products

  - Although the so-called securisations are generally more costly than traditional reinsurance the number and total volume of transactions increased.

  - Transactions are timeconsuming and generally administrative intensive with the structuring and marketing taking normally several months as the information package delivered to the investors is running anything from 100 to 150 pages.

  - But, as the number of securisations increased, the above-mentioned factors became less important as, at both ends of the transactions, the specialised teams developed their skills and general knowhow to handle the demand.

# Alternative Reinsurance Products

- Post financial crisis developments

  - After the financial crisis vanished, the financial markets are now again acitively providing capital to back Insurance Linked Securities (ILS) as alternative investment vehicles.

  - The number of CAT Bonds concluded increased in number and volume from 2009 after the 2008 lull.

  - Solvency Requirements such as Solvency II requirements in the European Community are expected to boost the development of Alternative Reinsurance Products addressing the possible shortfall of capital resulting from the application of the regulations.

    The European Community is pushing for the implementation for the capital adequacy standards for insurers by 2012.

# Alternative Reinsurance Products

- Financial Reinsurance providing additional capacity

  - ✓ CAT Bonds linked to exceptional loss activities being purchased by Reinsureds and Reinsurers to tap the financial markets are nowadays part of investors‘ portfolios considered to be a welcome diversification.

    The CAT Bonds are usually based on

    - Indemnity
    - Industry Loss (in Europe on Modelled Loss) and
    - Parametric triggers.

    E.g. Munich Re issued a first CAT Bond with a value of EUR 50,000,000 in June 2009 for risks outside the United States of America.

# Alternative Reinsurance Products

- Capital Markets – A secure source of capacity?
  - The steady development and stream of catastrophe bonds being placed in capital markets is underpinning the fact that the capital market is now an established source of capacity for covering disaster risks.
  - The types of products developed into all kinds of securisations to hedge various loss scenarios also at the level of Balance Sheets.

# Alternative Reinsurance Products

- PERILS AG

  In Europe a new company (PERILS AG) has been established registered in Switzerland. The Company is developing an Industry Exposure & Loss Database for Windstorm. This will enable „PERILS" to provide independent Industry Loss Index Servicies which were not available up to recently. So far, database for 9 European countries is ready.

# Alternative Reinsurance Products

- Conclusions:

The financial crisis did not deter the capital markets to invest in

- Sidecars
- Special Purpose Vehicles
- Catastrophe Bonds and
- Insurance Linked Securities.

Tapping reinsurance capacity in the non-traditional reinsurance markets is going to develop whereby a hard reinsurance market cycle will rather encourage the Reinsureds and Reinsurers to tap the financial market due to the fact that the price-advantage of the traditional reinsurance will not be available.

## Latest Cat bond launched

- 14 May, 2010
- **Chartis launches USD 425m catastrophe bond**
- Insurer taps capital markets for first time
- Purchasing an USD 425m in reinsurance protection against US hurricanes and earthquakes through a catastrophe bond. The first time the insurer has tapped the capital markets for coverage.
- The insurer has entered a reinsurance agreement with Lodestone Re, a Bermuda-based special purpose vehicle, which in turn has issued a catastrophe bond to investors in two tranches – USD 175m of class A notes and USD 250m of class B notes – to fund its obligations.

# Alternative Reinsurance Products

## Hurricane CAT bonds hit USD 1.8 billion

- 26 May, 2010
- **Nationwide Mutual** closes, **USAA** and **Allianz** to come
- Nationwide Mutual has missed its USD 200m target and closed at its US hurricane and earthquake catastrophe bond at USD 185m, pushing the year's total issuance to USD 1.8bn, Reuters reports.

# Alternative Reinsurance Products

**Hurricane CAT bonds hit USD 1.8 billion (2)**

- Swiss Re expects issuance to exceed USD 2bn for the first half of 2010 prior to the US wind season, which commences June 1. This is compared to an issuance total of USD 1.4bn for the same period last year 26 May, 2010.

# Alternative Reinsurance Products

- Thank you for your attention
- I hope this short paper has given you a basic insight into the world of Alternative Reinsurance Products.

Jacques Aigeldinger

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